AN INVESTIGATION OF THE RELATIONSHIPS BETWEEN CONTINGENCY FACTORS AND THE DEVELOPMENT AND ADAPTATION OF BUSINESS LEVEL MARKETING STRATEGIES

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PREFACE

Strategies are generally classified into three hierarchical levels: corporate, business and product/ brand level strategies. Strategy researchers have assumed that the different strategy levels might be influenced by different contingency factors. Marketing researchers have not addressed this issue. The dissertation research investigated the relationships between exchange system contingencies and business level marketing strategies as well as the effects of company factors on these relationships. The study consisted of a mail survey of manufacturing firms covering 137 four-digit SIC industries. The findings of the study provide useful knowledge for researchers concerned both with theory development and with research design. The study also has implications for business practitioners who search for strategic insights or want to generalize their experiences.

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CHAPTER I

INTRODUCTION

The volume of published strategy literature indicates that strategy has been one of the most popular subjects among business researchers during the last two decades. A review of this literature, however, suggests four major shortcomings. First, researchers have failed to clarify and classify major strategy-related constructs. This shortcoming has limited the development of theories of strategy, since construct definition is a precondition for theory development (Hunt 1984).

Second, most previous empirical studies have focused on the relationships between contingency and/or strategy variables and business performance. This orientation does not address relationships between contingencies and strategic behavior (see most PIMS studies). As a result, strategic behavior has not been the focal point of previous research.

Third, even though marketing is recognized as a critical component of business strategy, marketing scholars have largely ignored business level strategic issues and only recently have begun to direct their attention to strategy research (Wind and Robertson 1983).

Finally, most strategy researchers have adopted either the universal law perspective or the situation art perspective as a basic strategy research paradigm. Recently, strategy researchers have begun to focus on contingency paradigm (or the mid-range theory). But a problem with this paradigm is that there are too many contingency factors to consider all of them. Therefore, researchers should investigate a few important contingency factors which are both theoretically sound and practically parsimonious.

Although each of these problems will be discussed more at the following sections, this literature review lead us to three basic research questions to be investigated in this dissertation research.

Dissertation Objectives

The general goal of the dissertation research is to investigate empirically the relationships between three types of contingency variables and the development and adaptation of business level marketing strategies. The contingency variables to be studied are classified into three categories: market characteristics, industry characteristics, and company characteristics. Three aspects of strategy will be examined as they relate to the contingency variables: strategic objectives, market scope strategy, and differentiation strategy. The research will attempt to answer the following questions regarding the contingencies and strategy variables:

1. What specific characteristics of an industry and/or market are associated with specific strategic objectives, market scope strategies, and differentiation strategies?

2. What are the direct and moderating effects of company characteristics on the development and adaptation of strategic objectives, market scope strategies, and differentiation strategies?

3. What changes in the characteristics of an industry and/or market will lead to changes in strategic objectives, market scope strategies, and differentiation strategies?

Strategy is a very complex concept. Strategy researchers have employed a number of different conceptual and operational definitions in their work (Hofer and Schendel 1978). Therefore, accomplishing the dissertation objectives requires a synthesis of ideas generated from different disciplines. The following sections attempt to organize the diverse strategy perspectives into a coherent framework.

Clarification of Major Constructs

Strategy

In the past few years `strategy' has become a popular term in the business world. This popularity is due to the need for firms to develop strategies which allow them to adapt to changes in the market and business environment. These environmental changes are likely to continue at a more rapid pace in the future. Therefore, strategy should be an increasingly important topic in the years ahead.

This increased interest in strategy has resulted in a proliferation of terms: strategic planning, strategic market planning, strategic management, strategic marketing, market strategy, marketing strategy, grand strategy, corporate strategy, business strategy, competitive strategy, investment strategy, growth strategy, production strategy, channel strategy, brand strategy, etc. Although these terms are used and defined in different ways, the common element of most definitions is that strategy is an adaptation mechanism matching an organization with its environment (Andrews 1980; Glueck and Jauch 1983; Hofer and Schendel 1978; Mintzberg 1978; Schendel and Hofer 1979).

Recent conceptualizations have been developed to organize these diverse strategy concepts into an integrated framework (Ansoff 1965; Hofer and Schendel 1978; Katz 1970; Steiner and Miner 1977). Many of these frameworks classify strategy into three levels: corporate level strategy, business level strategy and functional level strategy (Hofer and Schendel 1978; Vancil and Lorange 1975) or what will be referred to here as product/brand level strategy (Jain 1985). See Figure 1. Hofer and Schendel (1978) insist that researchers need to distinguish among strategic levels in doing empirical strategy research and must also be cognizant of the interrelatedness of the strategy levels.

Corporate Level Strategy

Corporate level strategy is primarily concerned with questions concerning the businesses in which a firm should compete, how corporate resources should be allocated to each business, and what objective each business should have (Boyd and Larreche 1978; Hofer and Schendel 1978). Therefore,

Strategy Levels	Strategic Questions
Corporate level strategy	* What businesses should be included in the corporate portfolio? * How should corporate resources be allocated to each business? * What are the objectives for each business ?
Business level strategy	* How should each business compete? * What competitive advantage should each business achieve? * What should the market scope of each business be? * What is the desired competitive positioning for each business?
Product/Brand level strategy	* How is the business strategy to be implemented? * What specific target markets should be served? * What specific marketing mix should be used to serve each target market?

Figure 1. Levels of Strategy

strategic decisions at the corporate level determine the composition of the business portfolio, and direct corporate growth through investment, acquisition, divestment, and diversification decisions. The main focus of corporate strategy is on identifing the business situations that provide the best opportunities to achieve corporate growth and profit objectives. By the nature of these decisions, corporate strategy has a long term orientation and involves the top levels of corporate management.

Business Level Strategy

Business level strategy is a plan to achieve and maintain competitive advantages in the businesses in which the firm operates (Weitz and Wensley 1984). Business strategy focuses on questions concerning the market scope, product lines, and competitive advantages for each business. The decision unit of business strategy is the individual strategic business unit (SBU). SBUs typically serve a distinct product/ market or well-defined set of customers and have the authority to make strategic decisions within corporate guidelines. Therefore, business level strategy is oriented toward mid-term time frames and involves the top management levels of the SBU. For the multi-business firm, the strategic objectives for each SBU are usually determined at the corporate level. For the single business firm, the corporate and business strategy classification is unnecessary, since the corporate and business strategies are essentially the same.

Product/Brand Level Strategy

Product/brand level strategy is a plan designed to actualize and exploit competitive advantages at the product/brand level. The decisions at the product/brand level must be consistent with the business level strategy and are directed toward the efficient implementation of a business level strategy (Weitz and Wensley 1984). Therefore, the primary objective of product/brand level strategy is achieving the business level competitive edge through functional operations at the product/brand level. Product/brand level strategy tends to have a short-term orientation with the involvement of functional area management.

Marketing and Business Strategy

Importance of Strategic Marketing

Marketing researchers have not focused on strategic issues until recently. For example, Wind and Robertson (1983) reviewed the marketing strategy literature and concluded that most studies addressed issues at the product/brand level by focusing on the individual product or brand as the unit of analysis and using a short term horizon. Marketing researchers have generally neglected marketing strategy at the business and corporate levels. Biggadike (1981) and Wind (1981) also concluded that marketing has contributed little to the understanding of strategic management. Consequently marketing's role has diminished at the higher organizational levels (Hayes and Abernathy 1980) and the marketing plan has been restricted to a tactical support role at the brand level (Hopkins 1981).

In contrast, the strategic role of marketing has been emphasized by chief executive officers (Webster 1981), management scholars (Hitt and Ireland 1984), and in general theories of the firm. According to the behavioral theories of the firm, the business firm is a coalition of individuals who belong to subcoalitions (Cyert and March 1963; Pfeffer and Salancik 1978). The task of the organization is to maintain and grow by negotiating resource exchanges with external coalitions. Marketing is the specialized function for negotiating exchanges with customers. The chief responsibility of marketing is to ensure an uninterrupted flow of revenue from customers (Anderson 1982; Howard 1983). Thus, if business strategy deals with the relationship of an organization to its environment, marketing plays a pivotal role in business strategy.

Marketing's Role in Strategy

Table I summarizes the role that the marketing function plays at different levels of strategy. At the coporate level, marketing provides essential information to formulate corporate level strategy. This input consists of analyses of the business and market environment. The marketing function presents information necessary to find the best business opportunities and to decide on appropriate resource deployment. Marketing plays an important role in helping the corporation balance existing operations against new business opportunities (Day and Wensley 1983).

Business level strategies are primarily concerned with creating competitive advantage. Developing a differential, competitive advantage requires an understanding of the behavior of markets and competitors. Marketing operates at the boundary between the company and markets and competitors. For this reason, marketing takes the primary role in determining where to compete and how to compete. In addition, marketing variables often provide the basis for achieving a competitive advantage in the marketplace.

Marketing strategy at the product/brand level primarily aims at efficient implementation of marketing programs to support the business level marketing strategy. In this sense, marketing strategy at the product/brand level is synonymous with what has traditionally been called marketing synonymous with what has traditionally been called marketing management. The primary concern of marketing management is developing a marketing mix to serve designated target markets:

TABLE I

MARKETING'S ROLE IN THE ORGANIZATION

Organization Level	Role of Marketing	Formal Name
Corporate	Provide customer and competitive perspective for corporate strategic planning	Corporate Marketing
Business Unit	Assist in the development of strategic perspective of the business unit to direct its future course	Strategic Marketing
Product/ Brand	Formulate and implement marketing programs	Marketing Management

* Like marketing, other functions, i.e., finance, research and development, production, accounting, and personnel, play their own unique role at each organizational level. The business unit strategy emerges from the interaction of marketing with other disciplines.

*Adapted from Jain (1985), Marketing Planning and Strategy.

> Marketing management takes market projections and competitive position as a given, and seeks to optimize within those constraints (Jain 1985, p. 55).

Clearly, marketing strategy is an important component of all strategic levels. Although the importance of marketing strategy at the product/brand level should not be underestimated, marketing researchers need to allocate more efforts to corporate and business level marketing strategy. This research can help increase the contribution of marketing to the survival and growth of business organizations.

Strategic Contingencies

Strategy Research Orientation

Traditionally, there have been two different strategy research paradigms: (1) the situational art paradigm and (2) the universal law paradigm. The situational art paradigm assumes that the appropriate strategy for a firm depends on factors unique to each firm's specific situation. Thus, no general propositions can be developed (Andrews 1980; Buzzell and Wiersema 1981; Uyterhoeven, Ackerman and Rosenblum 1973). According to this view, strategy is an "artful alignment of environmental opportunities and threats, internal strengths and weaknesses, and managerial values" (Hambrick 1983c p. 213). The studies adopting this paradigm tend to be company-specific using an in-depth case study methodology. The early works of the Harvard business school are a good example of this research tradition.

The universal law paradigm, on the other hand, takes the view that there is some strategy or set of strategies that are optimal for all businesses regardless of their specific situations (Lubatkin and Pitts 1980). This approach often results in "pooling" problems as researchers combine heterogeneous units in the same analysis (Anderson and Paine 1978; Hatten, Schendel and Cooper 1978). Examples of this approach are studies which have developed laws of market share (Buzzell, Gale and Sultan 1975) and the cumulative experience curve concept (BCG 1968). Many PIMS studies fall into this category.

Although these two paradigms have made substantial contributions to our understanding of strategic behavior, the lack of generalization of the situational art paradigm and the lack of precise explanation from the universal law paradigm have led theorists to converge on a middle ground, `mid-range paradigm' (Day and Wensley 1983). The mid-range paradigm assumes that the appropriate strategy is determined by particular contingencies (or intervening conditions) which commonly recur within a defined range (Cohen and Lindblom 1979; Merton 1968). Day and Wensley (1983) suggest that:

> Mid-range theories include simple contingency theories in which the validity of a relationship is controlled by the presence or absence of a particular independent variable, as well as more complex models in which independent variables can have an interactive effect on the nature of the relationship (p. 86).

The emphasis of the mid-range paradigm is on usable knowledge that is only applicable within a defined range.

Although strategy scholars have emphasized the need to develop mid-range theories of strategy (Day and Wensley 1983; Hofer 1975; Hambrick, Macmillan and Day 1982), little work has been done in the marketing area. Most of the recent strategy research has focused on the relationship between individual contingency variables and performance or the relationship between various strategic variables and firm performance (See most PIMS studies). Furthermore, many of these studies use the PIMS data base and, consequently, the variables and measures employed are limited to those included in the PIMS program. Specific problems with the PIMS data base have been discussed elsewhere (Ramanujam and Venkatraman 1984).

Contingency Levels

Ginsberg and Venkatraman (1985) state that "any theory of corporate or business strategy must be, by definition, contingency-based" (p. 421). Webster's Third New International Dictionary defines "contingency" as the condition that something may or may not occur. Smith and Nichol (1981) also imply that strategic contingency variables are factors which may influence the appropriate strategy. Sharma, Durand and Gur-Arie (1981) suggest that contingency variables either affect the form or the strength of the relationship between independent and dependent variables. They also provide a methodological approach for classifying contingency variables.

One of the difficulties in employing the contingency orientation is identifying the appropriate contingencies to be investigated. Fortunately, organizational theorists (Bourgeois 1980; Duncan 1972) and marketing scholars (Kotler 1985) have developed taxonomies of contingency variables. One scheme classifies the environment into two categories: the general environment and the task environment(Kotler 1985). The general environment includes broad environmental forces which have the most direct effect on corporate level strategies. Economic, demographic, political and social forces are examples of the general environment. On the other hand, the task environment includes markets, competitors, suppliers, company, and marketing intermediaries. The task environment has more influence on business level strategies. Changes in the general environment typically influence business level strategies through their effect on the task environment.

Task Environment for Marketing Strategy

The behavioral theories of the firm and theories of competition describe the components of the task environment most important for business level marketing strategies. According to the behavioral theories of the firm (Cyert and March 1963; Pfeffer and Salancik 1978), marketing's role is to determine the appropriate market scope for the firm (Howard 1983) and then to ensure the long-term satisfaction of its customer coalition (Anderson 1982; Howard 1983). In this sense, customers are the most important element of the task environment.

Business level marketing strategies must satisfy the needs of customers, and must also help the firm achieve a differential advantage over competitors. According to Alderson (1965) and Henderson (1983), there is always competition within the exchange system for resources. For virtually all business firms, the critical strategic constraint occurs at the interface with competitors.

Customers evaluate a firm's offering by comparing it to competitive offerings. Therefore, "the effectiveness of marketing programs usually depends on the reaction of both customers and competitors (Weitz 1985, p. 229)."

Recently, marketers have called for a broadening of the marketing concept to address explicitly the role of competition in marketing decision making (Day and Wensley 1983; Oxenfeldt and Moore 1978). A firm must create and sustain a competitive advantage in providing customer satisfaction to ensure customer support (Alderson 1965; Howard 1983; Oxenfeldt and Moore 1978). Even though traditional marketing paradigms have not focused on the competitive aspect of the task environment, competitors are an important contingency for marketing strategy.

Customers and competitors are the critical external contingencies for business level marketing strategies. However, the characteristics of a company are important internal contingencies. The strategic options available to any firm depend upon various firm capabilities. The importance of company characteristics is supported by several emprical studies (Buzzell, Gale and Sultan 1975: Woo 1983; Woo and Cooper 1982).

Jain (1985) summarizes the three major components of the marketing task environment as "the strategic 3 Cs": the customer, the competitors, and the corporation. Chapter II will review the literature to summarize the conceptual and empirical research concerning customers, competitors, and company variables and business strategies.

Contributions

This study focuses on investigating empirical relationships between contingencies and marketing strategies at the business level. Although exploratory, the research promises to contribute to our understanding of how firms develop business level marketing strategies in different task environments. The specific contributions of the study can be described as followings:

1. In general, this is one of only a few studies which have investigated marketing strategy at the business level. Marketers have traditionally focused on marketing strategy issues at the brand level (Wind and Robertson 1983). The results should expand the marketing strategy knowledge base as well as identify potentially fruitful areas for future research.

2. The study employs a unique approach in evaluating contingency/strategy relationships for both a previous period and for a future period. This approach makes it possible to investigate some of the dynamic aspects of marketing strategy with a cross-sectional methodology.

3. The study represents the only known attempt to classify empirically the company variables into independent, homologizer, quasi-moderator, and pure moderator categories. These results should greatly increase our knowledge concerning the nature of the contingency relationships and their effect on marketing strategy development.

In sum, the dissertation research should make an important contribution to the marketing strategy research area and should identify important directions for future research.

CHAPTER II

LITERATURE REVIEW

The present chapter reviews strategy literature in marketing, strategic management, and industrial organization economics. The chapter is organized into three major sections: (1) strategic contingencies, (2) marketing strategy at the business level, and (3) methodological issues.

Strategic Contingencies

As briefly discussed in the previous chapter, a firm is part of an exchange system which consists of a group of potential customers with similar needs (market/demand side) and a group of sellers offering goods and services to satisfy those needs (industry/supply side). For this reason, the exchange system in which a company operates defines the firm's task environment and the characteristics of the exchange system should be the most important contingencies for business level marketing strategy.

However, traditional paradigms in marketing have focused on the demand side of the exchange system and have ignored the supply side of the system. Marketing paradigms have almost entirely emphasized a "customer orientation" (Howard

1983). According to these paradigms, for a company to be successful, customers should be the dominant driving force (Howard 1983). This orientation has resulted in researchers' main focus being on the characteristics of the market with little explicit attention to the supply side (Day and Wensley 1983: Weitz 1985).

In contrast, most industrial organization (IO) economists have traditionally advocated the paradigm of structure-conduct-performance. Structure refers to the competitive intensity of an industry and conduct is translated as the marketing strategy of firms in that industry. This paradigm argues that industry structure determines the conduct within an industry. Thus, the conduct of firms determines industry performance (Scherer 1980). This paradigm focuses on the supply side of the exchange system and most IO researchers ignore marketing strategy, since emphasis is directed toward the relationship between structure and performance (Porter 1980). Nevertheless, the IO paradigm offers an important contingency perspective which marketing scholars have ignored, that is, the characteristics of an industry.

As the constituency-based theory of the firm implies (Anderson 1982), strategic contingencies at the business level should cover the entire exchange system. Present theories and research tend to focus either on the characteristics of industries, as in industrial organization economics, or on the characteristics of markets, as in the traditional marketing paradigm. These paradigms are incomplete, because the exchange system is a `natural combination' of customers and suppliers.

> Customers respond to the options that are available, and in doing so, generate signals that suppliers respond to by changing the options that they offer (Day and Wensley 1983, P. 86).

The two sides of the exchange system are mutually interdependent and together create unique contingencies for a firm to develop a relevant marketing strategy.

The appropriateness of a strategy also depends on the characteristics of a company (Abell 1978).
Although the exchange system represents important external contingencies company characteristics primarily reflect the capability of a firm to pursue alternative strategies (Abell 1978; Hofer 1975; Pfeffer and Salancik 1978). Effective strategic choice is highly dependent on the ability to perform particular strategies which require various resources, experiences and skills. Thus, company characteristics are also important strategic contingencies.

The following sections provide a review of empirical research concerning industry characteristics, market characteristics, evolution of the exchange system, and company variables as important contingencies for marketing strategy.

<u>Industry Characteristics</u>

Industry characteristics have been the favorite theme of industrial organization economists for a long time, and have tremendous impact on the `exchange function' of marketing (Weitz 1985). Even though the supply side of the exchange system is one of the most neglected areas in marketing (Wind and Robertson 1983), marketing scholars have not always been silent about this theme. Some marketing scholars have recognized competition or competitive intensity within an industry as a major determinant of competitve activities or marketing strategy (Alderson 1957, 1965; Biggadike 1981; Day and Wensley 1983; Henderson 1983; Kotler 1984; Oxenfeldt and Moore 1978; Weitz 1985).

Alderson (1957, 1965) advanced a number of propositions about relationships between competition and marketing strategy. Alderson viewed competition as a struggle for differential advantage over other firms. According to Alderson, competition is the primary force for innovation in marketing and through time competitors will attempt to neutralize the differential advantage of other firms. Oxenfeldt and Moore (1978) suggest that marketing managers switch from a traditional customer-oriented approach to a stance more attuned to competition. Henderson (1983) proposes a set of principles of competition and insists that "the value of marketing strategy is proportional to the soundness of the competitive analysis that underlies it" (p. 7). Kotler (1984) also states that "the evolution of markets is very much the history of competitors coming out with new benefits to offer to buyers." Biggadike (1981) and

Day and Wensley (1983) emphasize both customers and competitors as strategic contingencies. As discussed by these marketing scholars, competition is the driving force of industry dynamics. Thus, industry characteristics an important contingency for business level marketing strategies.

The technical definition of competition differs markedly between economists and business researchers. In classical economic theory, an industry is competitive only when the number of sellers selling a homogeneous commodity is so large and each individual firm's market share is so small that no individual firm is able to influence the price of the product by varying the quantity of output it sells. On the other hand, business researchers view competition as a conscious striving against other business firms for patronage.

IO economists and some marketing scholars seem to agree that competition or competitive intensity within an industry is the most important characteristic of the industry for determining conduct or marketing strategy (Alderson 1957, 1965; Biggadike 1981; Day and Wensley 1983; Henderson 1983; Kotler 1984; Oxenfeldt and Moore 1978; Porter 1980; Scherer 1980; Weitz 1985). Unfortunately, research in economics, management, and marketing does not provide a theoretical basis for investigating the influence of competition on the conduct of marketing strategy undertaken by managers (Weitz 1985).

Many IO economists have assumed that structural variables, such as the number and size distribution of competitors, and mobility barriers indicate the intensity of the rivary within an industry (Scherer 1980). Porter (1980) provides a checklist of structural variables that can be used to measure the competitive intensity within an industry.

Table II presents the industry variables used by marketing and strategic management scholars in their empirical research. These variables are: (1) the number of

TABLE II

INDUSTRY VARIABLES

Variable	Study	Measures	Comments
Number of competitors	Burke (1984) PIMS studies	Interval scale Real number of competitors in the served market	Strong relationship between # of competitors & ROI as revealed by IO studies
Size distribution of competitors	Burke(1984) PIMS studies	Interval scale *CR3 or CR4	Few empirical studies investigate the specific effect of concentration.
Mobility barriers	Burke (1984) Harrigan (1980) PIMS studies	Interval scale # of entrants or exit	Close relationship with market behavior of firm

* CR3 and CR4 indicate concentration ratio of the three or four largest firms. 1) PIMS studies include Anderson and Zeithaml (1984), Hambrick (1983), Galbraith and Schendel (1983), Gale (1972), Woo (1983), Woo and Cooper (1982), Yip (1980), and Zeithaml, Anderson and Paine (1981). But each PIMS study includes not all these variables.
2) Interval scale is a 7-point scale with anchors.

competitors (Burke 1984; Hambrick 1983; Woo 1983; Woo and Cooper 1982); (2) the size distribution of those competitors (Burke 1984; Gale 1972; Hambrick 1983; Woo 1983; Woo and Cooper 1982); and (3) the mobility barriers in the industry (Burke 1984; Porter 1976; Yip 1980).

In sum, the characteristics of an industry are important strategy contingencies even though marketing scholars have ignored them until recently. Competitive intensity seems to be the most important characteristic of an industry for business level marketing strategy. Key dimensions of competitive intensity appear to be the number of competitors, the size distribution of those competitors and industry mobility barriers.

Market Characteristics

Abell (1977, 1980) has proposed three dimensions of a business definition: (1) customer groups served, (2) customer functions served, and (3) technologies utilized. Since business definition is recognized as an important component of strategic planning, the characteristics of a market provide a basis for marketing strategy formulation.

Some theorists have attempted to capture the important characteristics of the market through product life cycle (PLC) theory (Day 1981; Rink and Swan 1979), arguing that certain types of strategies are appropriate at each PLC stage (Hofer 1975; Levitt 1965; Porter 1980). Some scholars and consulting firms empirically suggest that the PLC is the most fundamental variable affecting business strategy (Day 1981; Hofer 1975; Levitt 1965; Boston Consulting Group 1970). Although the PLC concept can help strategists think about the dynamics of strategy (Biggadike 1981), there have been criticisms concerning the value of the PLC as a basis for strategy development (Dhalla and Yuspeh 1976).

Research results do not warrant the conclusion that the PLC stage is the major determinant of business strategy (Anderson and Zeithaml 1984; Hambrick, Macmillan and Day 1982; Thorelli and Burnett 1981). The PLC stage is typically measured by market growth rate. Although market growth rate is an important contingency for marketing strategy (Woo 1983; Woo and Cooper 1982) and analytical models for strategic planning (Abell and Hammond 1979), other market variables influence strategy formulation.

Another important characteristic of the market is market size. Market size is one of the important factors which determine the attractiveness of a market (Abell and Hammond 1979). Larger markets are generally more attractive than smaller markets. However, large markets tend to attract more competitors and, thus may not offer the best opportunities. In any case, researchers have not investigated the relationship between market size and marketing strategy.

Market heterogeneity/homogeneity has been considered as another important characteristic of markets (Biggadike 1981;

Miller and Friesen 1983; Varadarajan and Dillon 1982). Market heterogeneity means that customers in the same market have a variety of preferences for product attributes. Customer wants differ in terms of features, services, prices, and other factors. Markets where buyers have few differences in product preferences are considered to be homogenous.

Alderson (1965) assumes that a market is primarily heterogeneous, and homogenous markets are not inherently dynamic. Biggadike (1981) argues that the diversity of a market changes over time along as the market evolves. Abell (1980) also suggests that evolution of market is related to market heterogeneity/homogeneity. In the early stage of market evolution, customers are seeking solutions to single problems or functions, but later customers take more of a systems view of their needs and develop heterogeneous preferences. Although the specific effects of market diversity on competitive strategy have not been fully studied, it is the basis for the concept of market segmentation. (Smith 1956).

Another group of scholars add `buyer fragmentation' to the list of important characteristics of a market (Biggadike 1981; Burke 1984; Buzzell, Gale and Sultan 1975). Buyer fragmentation indicates the size distribution of customers in terms of purchasing amount. Porter (1980) interprets buyer fragmentation in terms of the bargaining power of customers. When a market is highly fragmented, firms serving that market are relatively free to adopt any strategy. But in a concentrated market, customers have strong bargaining power and consequently the locus of control tends to be on the buyer side (Porter 1980). The indirect support for this argument comes from an empirical study by Buzzell, Gale and Sultan (1975). They found that

TABLE III

MARKET VARIABLES

Variable	Study	Measures	Comments
Market growth (PLC)	PIMS studies	Real market growth Industry growth PLC stage using nominal scale	Market growth has been well established as an important factor in strategy development.
Buyer fragmentation	Burke (1984) PIMS studies	Interval scale Account for 50% of total sale	ROI seems higher in the fragmented market than in the concentrated market.
Heterogeneity	Miller and Friesen (1983) PIMS studies	Interval scale # of user type	Heterogeneity has been hypothesized as an important variable, but the specific effects have not been fully studied.

1) PIMS studies include Buzzell, Gale and Sultan (1985), Hambrick, Macmillan and Day (1982), Phillips, Chang and Buzzell (1983), Varadarajan and Dillon (1982), Woo (1983), Woo and Cooper (1982), and Zeithaml, Anderson and Paine (1981). But each PIMS study includes not all of these variables.
2) Interval scale is a 7-point scale with anchors.

the ROI is higher in the fragmented markets than in the concentrated market.

Table III summarizes empirical studies which have investigated market characteristics. Important market dimensions appear to be the size and growth rate of the market and the degree of market heterogeneity and fragmentation.

Evolution of Exchange System

As illustrated in the PLC concept, many strategy paradigms seem to assume two important phenomena: (1) there is some type of equilibrium between the market and industry and (2) if the equilibrium is broken, it is by customers, and not by the industry. In other words, if a market changes in size, growth rate, diversity or fragmentation, then, the industry changes its structure to meet this change in the market. If this scenario is true, marketing strategists do not need to consider industry characteristics because they merely reflect the market situation. However, Alderson (1956, 1965) insists that competitors in an unfavorable state take proactive steps to break the unfavorable equilibrium. Therefore, industry changes are not necessarily mirror images of the market.

As two primary dimensions of the exchange system, the industry and market interact with each other in an evolutionary manner. Customers respond to the options that are provided by the industry and according to these signals from customers, firms in an industry change the options that they offer (Day and Wensley 1983). For example, customers' tastes may change due to changes in their value orientation, disposable income, social positions, physical environment or product experiences. These changes break the equilibrium of the exchange system by either increasing or decreasing the market dynamics. Then, existent suppliers change their offerings or go out of business, and/or new competitors come in with differential offerings.

In other cases, the characteristics of an industry may change first by the development of new products or new ways of doing business. These changes also break the equilibrium of the exchange system by changing the behavior of suppliers (Henderson 1983). Customers adjust their market behavior by learning either the benefits of new offerings or the cost of their prefered options. Therefore, the characteristics of the market and the industry stimulate each other and the drive can be initiated from each side. The important implication of the evolution concept is that marketing strategists need to consider both sides of the exchange system.

Company Characteristics

Most of the strategy literature suggests that the characteristics of a company are important considerations for business strategy research. (Abell 1978; Hofer 1975; Schoeffler, Buzzell and Heany 1974). Abell (1978) and Hofer

(1975) have provided the most comprehensive list of company variables. Abell (1978) mentions four variables such as company size, diversity, resource/skills and goal/ objectives. Hofer (1975) also provides a lengthy list of company variables such as market share, newness of plant

TABLE IV

COMPANY VARIABLES

Variable	Study	Measures	Comments
Market share	Burke (1984) Hamermesh, Anderson and Harris (1978) PIMS studies	Relative market share: comparing company share with market leader in the served market or industry	Market share is well recognized as one of the most important determinants of profitability.
Corporate Diversity	PIMS studies	# of different four digit SIC in which a firm operates	It shows clear relationship with ROI, but it is not clear why it works.

1) PIMS studies include Buzzell, Gale and Sultan (1975), Hambrick, Macmillan and Day (1982), Schoeffler, Buzzell and Heany (1974), Woo (1983), and Woo and Cooper (1982). But each PIMS study includes not all of these variables.
2) Interval scale is a 7-point scale with anchors.

and equipment, labor intensity, customer concentration, quality of products, value added, length of the production cycle, relative wage rate, marketing intensity, and discretionary cash flow/gross capital investment. Empirical studies, mostly based on PIMS data set, have investigated several company variables. Table IV summarizes these variables.

Market share is the variable most frequently mentioned and studied among the company variables (See BCG model and PIMS studies as an example). Since BCG introduced experience curve theory and PIMS studies proclaimed that market share is a key to profitability (Buzzell, Gale and Sultan 1975), market share has been one of the hot issues in marketing and strategic management. In spite of frequent criticism, market share has been widely accepted as one of the most important strategy contingencies (Hamermesh, Anderson and Harris 1978; Kotler 1984; Woo 1983; Woo and Cooper 1982). Market share generally indicates the cost structure and competence of a firm. This may be a reason why market share has often been used as a proxy for firm size (Thorelli and Burnett 1981).

Firm size is one of the four company variables which Abell (1978) thinks determine the appropriateness and consequently, the result of a strategy. Buzzell (1981) and Datta (1979) also use firm size as a contingency variable. However, firm size is rarely shown in the empirical studies of strategy. Buzzell (1981) used market share as a proxy for firm size, but there is no known evidence yet that market share is strongly related to the relative firm size.

Diversity is another important company variable. Diversity is measured by the number of businesses in which a firm operates. One can argue that a multi-business firm requires quite different strategies from a single business firm for two important reasons. First, according to business portfolio theory, the diversified firm may assign different strategic roles for individual SBUs. Different strategic objectives obviously lead to different strategies (Schendel and Patten 1978).

Second, the diversified firms may have a competitive advantage in terms of economies of scale, resources (Schoeffler, Buzzell and Heany 1974) and synergy in production, marketing and R&D investment (Woo 1983). Newman (1978) supports this argument by stating that firms competing in the same market may not choose the identical business strategies even if they share a common goal unless they possess homogeneous firm-specific assets. Harrigan (1980) and Porter (1976) also found that tight internal linkages originally aimed at creating synergy would prevent certain strategies. In this sense, diversity should be considered as an important contingency for business strategy.

The last company characteristic which seems to be a important contingency for strategic decision is past performance (Ginsberg and Venkatraman 1985; Hambrick and Schecter 1983; Ramanujam 1984). Conceptually, past performance should have some impact on future strategies. For example, when the past performance of a firm is satisfactory, the management may not choose to change the strategy even though there are some important changes in the business environment. On the other hand, if past performance is not satisfactory, management may make strategic changes even though the business environment has remained relatively constant.

Table V summarizes the performance measures frequently used by researchers. As shown, there have been a variety of performance measures, however, "market share and ROI are measures of the degree to which a business has been able to achieve a sustainable competitive advantage (Weitz 1985, p. 234)." As Abell (1978) and Ansoff (1965) assert, return on investment (ROI) has been the most commonly and widely accepted yardstick for measuring business success. Sometimes

TABLE V

PERFORMANCE MEASURES

Variable	Study	Measures
Profitability (ROI, ROE, ROA)	Gupta and Govindarajan (1984) Miller and Friesen (1983) PIMS studies	The ratio of net, pretax operating income to average investment, equity or asset
Marketability (market share change, growth in sales)	Datta (1979) Gupta and Govindarajan (1984) PIMS studies	The change in average share of market or growth in sales in a certain period.
Liquidity (cash flow)	Gupta and Govindarajan (1984) PIMS studies	F=(NI + Depreciation) - change in plant and equipment -change in working capital.

1) PIMS studies include Anderson and Zeithaml (1984), Buzzell, Gale Sultan (1975), Galbraith and Schendel (1983), Hambrick (1983a,b), Hambrick, Macmillan and Day (1982), Hambrick and Schecter (1983), Schoeffler, Buzzell and Heany (1984), Woo (1983), and Woo and Cooper (1982).

return on assets (ROA), return on equity (ROE), return on sales (ROS), or cash flow have also been used. Since the publication of the PIMS, market share has been the popular performance measure by many firms, either in conjunction with or independently from ROI (Buzzell and Wiersema 1981). Hofer and Schendel (1978) think that sales growth provides a second measure of economic performance that reflects how well a firm responds to its environment.

To summarize, the characteristics of a market and an industry are two major dimensions of the exchange system which control the critical resources necessary for system. A combination of market and industry characteristics produces a unique situation which may require different strategic approach. Furthermore, both market and industry factors interact and evolve over time. Business firms must understand the appropriate exchange system contingencies and monitor the exchange system's evolution if they are to develop successful strategies. The strategic options available to any firm depend, in part, upon various company characteristics.

Marketing Objectives and Strategies at Business Level

Marketing Objectives

Strategic objectives define the basic purpose of business level strategy. Different firms facing different business environments are likely to have different strategic objectives. these strategic objectives will affect the choices available to the firm.

In general, strategic objectives for marketing strategies at the business level can be classified into three categories in terms of market share: (1) build, (2) hold, and (3) pull back (Abell and Hammond 1979; Burke 1984; Buzzell, Gale and Sultan 1975). These three strategic objectives are closely related to the performance measures shown in Table V. For example, the `build' objective aims to increase the market share of the firm. The `hold' objective represents an effort to improve profitability without losing market position. Finally, the purpose of a `pull back' objective is to increase the cash flow of the firm.

Logically, there are some trade-off relationships among these strategic objectives (Glueck and Jauch 1984). One objective may be accomplished often at the expense of other objectives (Schendel and Patten 1978). For instance, if a firm wants to aggressively increase its market share, the firm may have to give up some profit in the short run. In contrast, a firm desiring to increase profitability or to improve cash flow may have to give up some market share. The appropriate strategic objectives depend upon the exchange system contingencies facing a firm and the characteristics of a particular firm.

Marketing Strategy

Marketing strategy at the business level focuses on the creation of competitive advantage (Anderson 1982; Bourgeois 1980; Hofer and Schendel 1978; Vancil and Lorange 1975; Weitz and Wensley 1984). Business level marketing strategy can be subdivided into two components: market scope strategy and differentiation strategy. Vancil and Lorange (1975) state:

> Business planning, leading to the formulation of business strategy, is the process of determining the scope of a division's activities that will satisfy a broad consumer need, of deciding on the division's objectives in its defined area of operations, and of establishing the policies adopted to attain those objectives (p. 82).

Weitz and Wensley (1984) also describe:

> Strategic decisions at the business level are concerned with selecting target segments and determining the range of products to offer. ---. Analyzing competitors, segmenting markets, and exploiting competitive advantages to penetrate markets are primarily marketing activities. Even though marketing is just one functional area in a business, marketing strategy plays a principal role in business-level strategy. Thus, ---, marketing strategy is closely identified with business-level strategy (p. 4-5).

Some business strategy researchers support this argument by suggesting several generic strategies for creating competitive advantage (Hall 1980; Levitt 1980; Porter 1980; Smith 1956). Although they use slightly different terms and classification schemes, the generic strategies can be classified into either market scope strategies or differentiation strategies. For instance, Smith (1956) recognizes that market segmentation and product differentiation are the fundamental marketing strategies. Levitt (1980) emphasizes differentiation as an important competitive strategy. Hall (1980) discusses the importance of both differentiation and low cost for the success in the competition, while Porter (1980) suggests three generic strategies: overall cost leadership, differentiation, and focus.

Market Scope Strategy

A market scope strategy defines the boundaries for the exchange activities of a firm. Some firms pursue a broad market while other firms concentrate on a narrow market. Two dimensions of a market scope strategy are: geographic market scope and customer segment scope.

Geographic Market Scope. Geographic market scope means the geographic boundaries within which the firm operates.

The geographic market scope strategy is very critical for the success of a firm. A firm is constrained by available resources. Different geographic scope strategies require different levels of resources. Firms must select a geographic strategy based on opportunities available from the exchange system and based on their resources and competencies. In general, large firms would be expected to have a broad geographic perspective and small firms would typically concentrate their efforts in limited geographic areas.

TABLE VI

MARKET SCOPE STRATEGY VARIABLES

Variable	Study	Measures	Contigency	Comments
Geographic scope	PIMS studies	Geographic coverage of market	Firm size	Smaller firms are advised to focus on regional markets.
Number of segments	Hamermesh, Anderson and Harris (1978) PIMS studies	Number of types of customers	Market share Market growth	A broad variety of customers in growth markets neither help nor hurts profit, but in mature markets and for small firms, a focus strategy is better.
Size of market	PIMS studies	Number of customers	Market share Firm size	Small firms should focus on small markets.

1) PIMS studies include Galbraith, Schendel (1983), Hambrick (1983b), Hambrick, Macmillan and Day (1982), Macmillan, Hambrick and Day (1982), Varadarajan and Dillon (1982), and Woo (1983). But each PIMS study includes not all of these variables.

Only limited research has been directed toward geographic market scope strategies (Dess and Davis 1982; Woo 1983). According to these studies, small firms should focus on the regional markets. However, Levitt (1983) emphasizes the importance of the globalization of markets, and Hirsch and Lev (1973) insist that geographic diversification of a market tends to stabilize the firm's sales, even though there is no empirical evidence.

Customer Segment Scope. Customer segment scope strategy starts with the assumption that the customers in a market are heterogeneous and can be identified and classified into a number of smaller groups being homogeneous in response to a market offering (Smith 1956). Smith describes the possible reasons for lack of homogeneity as different customs, desire for variety, desire for exclusiveness or basic differences in customer need. In the recent marketing literature, preferred bases for segmentation are various customers' responses to marketing stimuli such as benefits sought and product/service purchase patterns (Wind 1978).

Customer segmentation has been considered for a long time as one of the most fundamental marketing strategies (Wind 1978). Marketing textbooks generally suggest three customer segmentation strategies: (1) total market strategy (or undifferentiated) which ignores market segment differences by appealing to the whole market with one market offering; (2) multisegment (or differentiated) strategy where the firm operates in several segments of the market and designs separate offerings to each segment; (3) focus (or concentrated) strategy where a firm pursues a large share of a one or a few submarkets rather than going after a small share of a large market (Kotler 1984; Pride and Ferrell 1980).

Most of the recent marketing literature emphasizes the multisegment or focus strategy (Arbeit 1982; Kotler 1984). However Levitt (1983) suggests the need for a broader segment scope strategy, that is, the mass marketing strategy based on product standardization and low cost. Porter (1980) describes both of these as generic strategies such as focus and low cost strategy. These theorists provide many real-life examples, but few empirical studies have investigated the relative effectiveness of different segmentation strategies. Most segmentation studies have focused on the segmentation procedure and segmentation bases (Assael and Roscoe 1976; Doyle and Saunders 1985; MacLachlan and Johansson 1981; Shapiro and Bonoma 1984; Wind 1978; Wind and Cardozo 1974).

Differentiation Strategy

Differention strategies search for differential advantages to establish a strong market position (Alderson 1965; Smith 1956). Therefore, differentiation strategies consist of activities to develop something unique, physically and/or psychologically, and meaningful to customers. Differentiation strategies have traditionally concentrated on the promotional efforts to differentiate one's products from competitors' products by heavy use of advertising and promotion. (Hall 1980; Hambrick 1983b; Pride and Ferrell 1980; Smith 1956).

However, Alderson (1965), Levitt (1980), and Porter (1980) extend the concept of differentiation to cover all of the possible ways to distinguish one's offering from all other competitors. According to Levitt (1980) and Porter

(1980), a firm can differentiate itself from its competitors by introducing something unique, important, or meaningful to customers. Therefore, the differentiation strategy can take many forms. Alderson (1965) introduces the six aspects of the search for differential advantage including: (1) market segmentation; (2) selection of appeals; (3) transvection (distribution); (4) product improvement; (5) process improvement; and (6) product innovation. These potential avenues for differentiation can be classified in three general categories: (1) product/service differentiation; (2) price/cost differentiation; and (3) promotion/channel differentiation. The following sections discuss each of the major components of differentiation strategy.

Differentiation by Product/Service. The product is the most important marketing variable (Corey 1975; Kotler 1984). Because of this importance, product/service differentiation can provide an effective basis for differentiation strategy (Levitt 1980; Kotrba 1966; Phillips, Chang and Buzzell 1983; Porter 1980; Smith 1956). Differentiation by product/service protects a firm from competitors, especially from the low-cost leaders, by creating customer loyalty and lowering customer sensitivity to price (Porter 1980). A firm may achieve the product differentiation by more and efficient R&D investment, breadth of product lines, the quality of product and/or features of product (See Table VII).

TABLE VII

PRODUCT STRATEGY VARIABLES

Variable	Study	Measures	Contigency	Comments
Product R&D	PIMS studies	R&D expense/ revenue	Market share Market growth rate	High share firms in growth markets tend to invest for R&D, but R&D does not pay in short term.
Product breadth	PIMS studies	Relative breadth of product line	Market growth rate	Low share firms should concentrate on narrow product lines. Findings are not consistent over PLC stages.
New product	PIMS studies	% of sales from new product	Market growth rate	Firms in growth stage tend to have more new products. New products hurt cash flow, but not ROI.
Product innova- tion	PIMS studies Hamermesh Anderson and Harris (1978)	Frequency of product change	Market growth rate Market share	No significant difference over growth stages, but effective low share firms tend to not change often.
Product quality	PIMS Datta (1979) PIMS studies	Average of percents superior product minus inferior product 5-point scale	Growth rate Market share Frequency of purchase	Quality always pays, but findings show disagreement on the degree of of importance of quality over PLC stages and market share

1) PIMS studies include Anderson and Zeithaml (1984), Buzzell, Gale and Sultan (1975), Galbraith and Schendel (1983), Hambrick (1983a,b), Hambrick, Macmillan and Day (1982), Macmillan, Hambrick and Day (1982), Phillips, Chang and Buzzell (1983), Schoeffler, Buzzell and Heany (1974), Varadarajan and Dillon (1981), Woo (1983), and Woo and Cooper (1982). But each PIMS study includes not all of these variables.

Broadness of product line is a source of product differentiation. A firm can compete with a full line of products to enable customers to do one-stop buying (Biggadike 1977) or with a focused line of product aiming at high efficiency and cost leadership (Porter 1980). PIMS studies generally suggest that low share firms should have narrow product lines, but the findings are not consistent over PLC stages (Anderson and Zeithaml 1984; Dess and Davis 1982; Hambrick 1983b; Hambrick, MacMilaan and Day 1982; MacMillan, Hambrick and Day 1982; Varadarajan and Dillon 1982; Woo 1983; Woo and Cooper 1982).

Superior product quality has been considered as the most important factor for success (Datta 1979; Hall 1980; Buzzell 1980; Phillips, Chang and Buzzell 1983; Porter 1980). Hall (1980) insists that achieving superior product quality with an acceptable cost structure and pricing strategy is one of the success strategies. Porter (1980) considers differentiation by quality as an alternative strategy to overall cost leadership. Phillips, Chang and Buzzell (1983) conclude that attainment of a high quality position does not require the strategic trade-offs such as higher relative direct costs or marketing expenditure.

<u>Differentiation by Price/Cost</u>. Although non-price considerations have become more important to consumers in in recent decades, price remains a major determinant of buyer behavior and price is still an important element of marketing strategies (Kotler 1984). A firm can adopt either

a premium price strategy with a superior quality or a low price strategy by achieving the low cost leadership (Datta 1979; Anderson and Zeithaml 1984; Buzzell, Gale and Sultan 1975; Galbraith and Schendel 1983; Hambrick 1983; Hambrick, MacMillan and Day 1982; MacMillan, Hambrick and Day 1982; Woo 1983; Woo and Cooper 1982). In general, the premium price strategy attempts to increase the unit profitability of sales, while the low price strategy aims to increase sales volume or market share. According to the PIMS studies, high market share firms tend to charge premium prices despite the low cost assumption of experience curve concept. Also, prices in mature markets tend to be lower than those in growth markets (Table VIII).

Although price differentiation strategies have been used for a long time (Kotler 1984), the effect of a price differentiation strategy is questionable if it is not accompanied by low cost or high quality (Buzzel and Wiersema 1981; Robinson and Fornell 1985). Buzzel and Wiersema's (1981) and Robinson and Fornell's (1985) analysis of the PIMS data revealed that relative price changes had no relationship to market share changes. Because price changes are often matched by competitors, maintaining a price differential advantage requires a low cost or high quality position.

Firms might also achieve differential advantages through the promotion and distribution areas. However, due to the focus of the dissertation research, these areas are

TABLE VIII

PRICE STRATEGY VARIABLES

Variable	Study	Measures	Contigency	Comments
Relative price	Datta (1979) PIMS studies	Average level of prices relative to that of the three largest competitors	Market growth Market share	Generally, high share firms charge higher price than low share firms do. The price in mature market tends to be lower than that in growth markets.

1) PIMS studies include Anderson and Zeithaml (1984), Buzzell, Gale and Sultan (1975), Galbraith and Schendel (1983), Hambrick (1983b), Hambrick, Macmillan and Day (1982), Macmillan, Hambrick and Day (1982), Woo (1983), and Woo and Cooper (1982).

not covered in this chapter. Therefore, the dissertation study concentrates on differentiation through market scope, product/service, and price/cost strategies.

Methodological Issues

Although empirical research on business strategy has been conducted for more than two decades, strategy researchers still face many difficult theoretical and practical problems (Hambrick 1980; Harrigan 1983; Snow and Hambrick 1980). The major methodological issues in strategy research are discussed in this section.

Cross-sectional vs. Longitudinal Approach

Two broad approaches have been used to investigate strategy relationships: cross-sectional and longitudinal (Abell 1978). The cross-sectional approach assesses strategic relationships across different contingency situations for a defined period of time. Although researchers often infer cause-effect relationship using the cross-sectional method, only associative relationships can be identified. The longitudinal approach, in contrast, can capture the dynamic nature of strategy relationships and is better suited for identifying causal relationships. The longitudinal approach has frequently been recommended for strategy studies (Abell 1978; Day and Wensley 1983).

Most empirical studies have adopted the cross-sectional approach simply because it is too hard to get longitudinal data. The data problem will be reduced in the future due to accumulative data set such as PIMS and COMPUSTAT. However, in the near term strategy studies will continue to be cross-sectional and, thus, unable to address the dynamic strategy issues.

Primary vs. Secondary Data

Empirical strategy studies use either a primary data set, which researchers collect for a given study, or secondary data sets, which already exist (e.g. PIMS, COMPUSTAT). While studies investigating the process of strategy development typically use primary data, studies of strategy content tend to use the secondary data sets, especially the PIMS data base.

Nothing is wrong with using secondary data sets. However, the heavy reliance on the PIMS data set causes at least two serious methodological problems: (1) data-driven research design and (2) conclusion validity problems. The reluctance of many companies to provide the detailed data needed for strategy research has led researchers to compromise their research designs by concentrating on variables where secondary data is readily available. This can cause serious operationalization problems. Ramanujam and Venkatraman (1984) clearly support this criticism. After reviewing the body of research using the PIMS data base, they conclude that the data base has constrainted researchers to some extent in the choice of research questions and operationalization of constructs.

Another methodological issue with regard to the heavy reliance on the PIMS data base is the conclusion validity problem. When researchers use the same data set to investigate similar issues, their research conclusions are likely to be similar. But these seemingly consistent findings do not necessarily confirm the validity of their findings. Ramanujam and Venkatraman (1984) suggest:

> Many PIMS studies compare their findings to prior PIMS research and report consistency of one with the other. This is hardly surprising or counterintuitive, given the commonality of the data base and the considerable overlap in the samples chosen. --- . Few studies have reported consistency with other studies using non-PIMS data sources, ---. Therefore, if PIMS-based research completed to data is to be validated and extended, it clearly must be undertaken using non-PIMS data sets (p.146-147).

This problem requires researchers to design their studies to rigorously test theoretical relationships and to validate the findings using multi-data sources.

Intended vs. Realized Strategy

Mintzberg (1978) first argued that an intended strategy and a realized strategy may not be same because there is a gap in time between the intended strategy and the realized strategy. What was intended may not be realized because of unexpected environmental changes, misjudgements about the environment, or changes during implementation (Mintzberg 1978).

Snow and Hambrick (1980) insist that researchers should determine which strategy they are going to measure, an intended strategy or a realized strategy. They advise strategy researchers to choose one of them depending on the purpose of the study. However, it is not possible to measure purely an intended strategy or a realized strategy. As long as researchers must rely on the perception of management, strategy measures will contain a mixture of the intended and the realized strategy. Thus, the problem of separating intended from realized strategies is unavoidable.

Random vs. Convenience Sampling

Most empirical studies of business strategy have adopted the convenience sampling method. This convenience sampling approach limits the generalization of research results. Strategy researchers, therefore, should invest more efforts to improve the external validity of their findings.

Although the use of probability samples is desirable, strategy researchers are plagued by low response rates to data collection requests. These low response rates may result in biased samples due to nonresponse. Researchers need to use probability sampling designs and concentrate on improving the rate of response to requests for data.

Measurement

Measurement is a critical and difficult aspect of strategy research. Snow and Hambrick (1980) summarize four different measurement approaches in business strategy research: (1) investigator inference, (2) management's self-typing, (3) external assessment such as panel discussion of experts, and (4) objective indicators such as published data. Most empirical studies use members of top management or SBU managers to provide assessments of strategy constructs (Burke 1984; Dess and Davis 1981; Grinyer and Yasai-Ardekani 1981; Gupta and Govindarajan 1984; Hitt and Ireland 1984; Hitt, Ireland and Palia 1982; Hitt, Ireland and Stadter 1982; Snow and Hrebiniak 1980). But Hambrick (1979) concludes that no one approach is inherently superior. Rather, each has costs and benefits.

Another critical issue is related to the measurement instrument. Recent articles have called for explicit attention to investigating the reliability and validity of measures used in marketing research (Churchill 1979; Peter 1979, 1981) and marketing researchers have responded by making impressive efforts (Churchill and Peter 1984). The characteristics of a measurement have a strong influence on obtained reliability (Churchill and Peter 1984). Yet strategy researchers rarely report evaluations of measurement validity and reliability. (Hitt and Ireland 1984; Hitt, Ireland and Palia 1982; Hitt, Ireland and Stadter 1982). In this sense, the strategy research area is behind other marketing areas in measurement sophistication.

The characteristics of a measurement instrument also seem to influence response rates. Generally, management executives are too busy to spend a great deal of time filling out questionnaires. Therefore, items should be simple, clear and short enough to increase the response rate as well as reliability (Peter 1979). The dilemma is that the more items, the higher the reliability of a measure is (Churchill and Peter 1984), but the longer the measurement instrument, the lower the response rate. Therefore, researchers must consider the trade-offs between response rates and reliability in developing measurement instrument.

Data Analysis

Recent strategy studies have used statistical techniques such as factor analysis, discriminant analysis and cluster analysis (Data 1979; Galbraith and Schendel

1983; Prescott 1983; Woo 1983; Zeithaml, Anderson and Paine 1981). However, the most frequently used analytical tool in strategy research has been linear regression analysis (Ramanujam and Venkatraman 1984). In these studies, researchers tipically assess the direct impact of various independent variables on the dependent variable. They do not normally attempt to identify interactive or curvilinear effects of independent variables. There is a need to address interactions and interrelationships between variables.

In sum, conducting strategy research poses difficult methodological problems. Most of the problems require the researcher to make trade-offs between what is desirable and what is practical. As the research area matures, improved methodological approaches are likely to be developed.

The next chapter conceptualizes a model of marketing strategy at the business level and provides the research design used to test the proposed model.

CHAPTER III

RESEARCH METHODOLOGY

This chapter presents a conceptual model of business level marketing strategy that suggests general relationships between contingency variables and strategy variables. Then, the research design used to test the conceptual framework is discussed.

A Conceptual Model of Business Level Marketing Strategy

A proposed conceptual model of marketing strategy at the business level is depicted by Figure 2. The independent variables are exchange system variables: industry characteristics and market characteristics. As previously discussed, a comprehensive assessment of the exchange system facing any firm requires attention to both the demand and supply side of the system. Industry characteristics include industry size, growth rate, structure, and competitive factors. Market characteristics include size, growth rate, heterogeneity, and fragmentation. The industry and market factors are posited to have a direct association with marketing strategy.

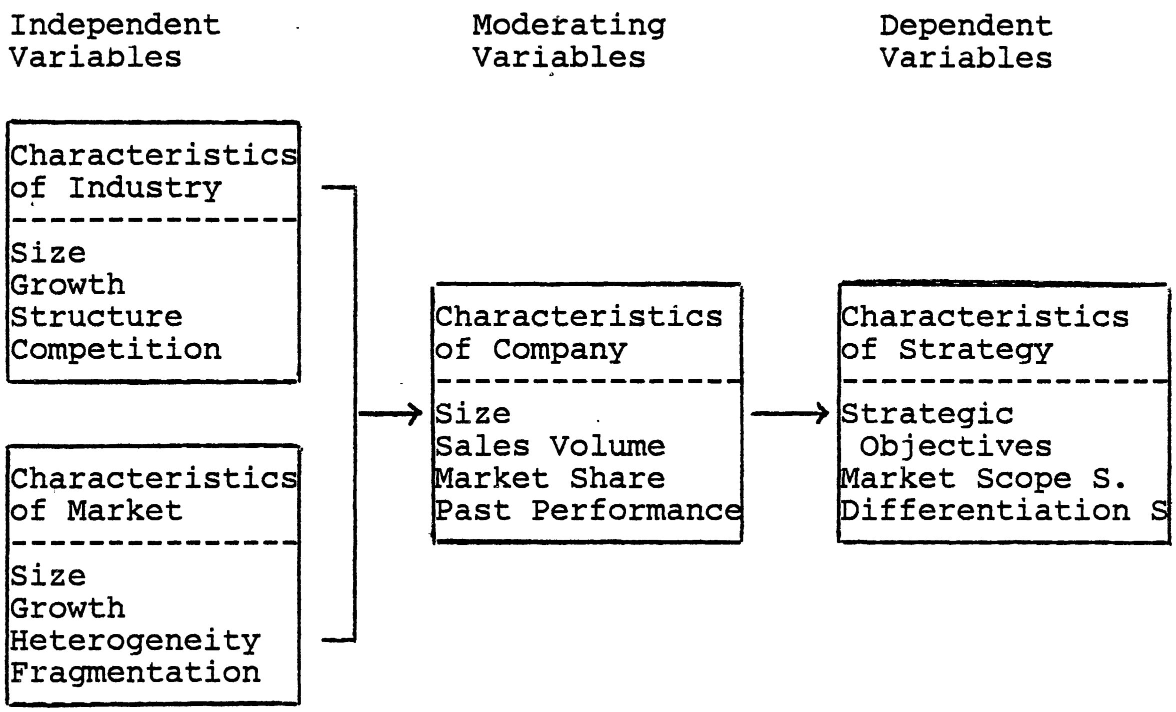

Figure 2. A Conceptual Model of Business Level Marketing Strategy

Although the importance of company factors has been recognized in previous research, company factors are generally treated as similar to strategy or as a predictor of performance (see PIMS studies). The conceptual model suggests that company characteristics operate as moderator variables. Company characteristics moderate the relationship between exchange system contingencies and strategic behavior. Company characteristics include firm size, sales volume, market share, and the past performance of the firm.

The last category consists of marketing strategies at the business level. By definition, all marketing efforts aimed at creating competitive advantage could belong to this category. However, the model focuses on three important components of business level marketing strategy: strategic objectives, market scope strategy, and differentiation strategy.

The relationships among these variables can be stated in the following manner:

> The characteristics of the exchange system are major determinants of the marketing strategy employed by a specific firm. For instance, if an industry is large, growing rapidly, and made up of a large number of firms; and the market is large, growing rapidly, and fragmented; then, a firm facing this exchange situation might be expected to have aggressive share building objectives, a broad market scope strategy, and ~~and~~ a high product differentiation strategy. However, this general relationship may be moderated by various characteristics of the firm. For example, a large firm might use a different strategy than a small firm or a high market share firm might employ a different strategy than a low market share firm.

Thus, the basic premise of the conceptual model is that company characteristics moderate the strategic response to specific exchange situations.

Research Design

The study was designed to use both primary data collected from a sample of U.S. firms and secondary data from Standard & Poor's Register of Corporations (1985). A discusion of the sampling plan , questionnaire design, data collection, and data analysis approach is provided below.

Sampling Plan

A sampling plan was developed to ensure that only certain types of firms were included in the study. Specific sampling criteria were as following:

1. To control the effects of corporate level strategies on business level strategies, each sampling unit (firm) was required to operate in only one 4-digit manufacturing SIC code.

2. To ensure the direct involvement of the respondent in strategic decisions, sample firms were required to be independent decision making units. In other words, sample units should have a president or a chairman in charge of the unit.

3. Sample firms should have more than 20 employees. This criterion is required to use the existing sampling frame and to compare results of this study to available secondary data.

The specific procedure used to select firms that met the sampling criteria was as follows:

1. The Standard & Poor's Register of Corporations (1985) was used as the sampling frame.

2. All of the firms on every 5th page of the Standard & Poor's Register of Corporations which met the sampling criteria were selected. Firms were selected in this manner until the sample size reached 600.

Questionnaire Design

The questionnaire was designed to allow respondents to provide the desired information concerning their firm and its situation. The questionnaire employed various five-point scales similar to those used in previous strategy studies. The decision to use these scales was based on three assumptions:

1. Resepondents would be able to complete the questionnaire in a short time period.
2. Respondents would be more willing to respond to these types of questions than to requests for specific confidential information.
3. The perceptions of strategic decision makers provide important information concerning a firm's exchange system situation and marketing strategy.

The questionnaire was divided into the following four sections:

1. A series of questions concerning industry, market, and company factors for the past five years.
2. A series of questions concerning the firm's strategic objectives, market scope strategy, and differentiation strategy for the past five years.
3. A series of questions concerning specific changes in the firm's market and industry which are expected to occur during the next five years.
4. A series of questions concerning how the firm expects to change its strategic objectives, market scope strategy, and differentiation strategy to respond to the expected market/ industry changes.

The questionnare was pretested twice before being put in final form (see Appendix A).

Data Collection

A mail survey was conducted in the following manner:

1. A prenotification letter was sent to the

presidents of sample firms before the questionnaire was mailed. The letter discussed the purpose of the study and elicited respondent corporation.

2. A questionnaire was mailed to the presidents of sample firms with an individualized letter from Dr. Sandmeyer, Dean of the College of Business Administration. A pre-stamped business reply envelope was also included.

3. After three weeks, a follow-up letter was mailed to all non-respondents with an extra questionnaire to motivate non-respondents to fill out and return the questionnaire.

Data Analysis

Two stages of data analysis were performed for the study. In the first stage, factor analysis was used to provide insight concerning the structure of constructs. Then, general descriptive statistics such as correlation, means and frequency statistics were calculated. The descriptive statistics aided in understanding the general characteristics of sample firms.

The purpose of the second step of data analysis was to test the conceptual model of business level marketing strategy by answering the research questions. This was achieved using moderated regression analysis. A complete discussion of all analysis is presented in chapter IV.

CHAPTER IV

ANALYSIS AND RESULTS

This chapter provides the results of the data analysis and discusses the research findings. The discussion is divided into two sections: descriptive analysis and research questions.

Descriptive Analysis

Preliminary analyses were conducted to provide information about the response rate, characteristics of respondents and sample firms, and general descriptions of industry situation, market situation, company characteristics, and marketing strategies of sample firms for the past five years and expectations for the the next five years.

Characteristics of Respondents

The prenotification letter identified thirteen firms which could not participate in the study, because they were no longer in business or expressed their unwillingness to participate. Therefore, the initial questionnaire was mailed to 587 firms. Within three weeks of the initial mailing, 139 questionnaires were returned (a first wave return rate of

24%). A follow-up mailing generated an additional 53 returns for a final sample of 193 firms (33 % response rate). This response rate is quite acceptable and higher than normally achieved for this type of business survey. Ten questionnaires were discarded due to a large number of unanswered questions. Thus, the effective sample size was 183 (31.2%).

The sample firms represents 137 four-digit standard industrial classification (SIC) manufacturing industries or 31.7 % of the total four-digit SIC manufacturing industries. Table IX illustrates the distribution of sample firms according to two-digit SIC manufacturing codes. The sample covers 19 of the 20 two-digit SICs. The sample missed tobacco manufacturers, SIC 21. About 43 % of the sample firms came from SIC 33 through SIC 36. These SICs are primary metal or machinery industries. The sample firms well represents the population distribution of two-digit manufacturing SICs.

TABLE IX

2-DIGIT SIC DISTRIBUTION OF THE SAMPLE

SIC	20	22	23	24	25	26	27	28	29	30
# of firms	16	9	7	9	6	5	5	11	1	6
SIC	31	32	33	34	35	36	37	38	39	
# of firms	5	7	14	21	27	16	7	7	5	

The size distribution of sample firms is shown in Table X. The number of employees ranges from 22 to 9000. Small firms, which have less than 100 employees, represent about 35 % of the sample, and relatively large firms, which employ more than 500 people, are 19.2 % of the sample. There are no significant differences between the respondent and non-respondent firms in terms of size distribution.

TABLE X

SIZE DISTRIBUTION OF SAMPLE FIRMS

# of employees	Respondent	Non-respondent	Total
99 or less	34.6 % (63)	33.7 % (134)	33.7 % (198)
100 - 499	46.2 % (84)	53.0 % (211)	51.1 % (300)
500 or more	19.2 % (35)	13.3 % (53)	15.2 % (89)
Total	31.2 % (183)	68.8 % (398)	100.0 % (587)

Chi-square=4.161 n.s.

Respondent titles were president, CEO, or owner (79.8 %), vice president (6.0%), marketing manager, business planning director, director of marketing research and development (12.6%). Other respondents includes plant managers, tresurers or adminstrative staffs (1.4%).

Industry Profile

Table XI presents a profile of the industry situations during the past 5 years and for the next 5 years. During the past 5 year period, most firms reported intense competition in their industry (mean=4.6). In general, industry growth in terms of employment and entry of new firms was low.

For the next 5 years, respondents expect competition to remain intense with increased competition from imports. The general expectation is that industries will become smaller in terms of employment and the number of firms in the industry. Large firms are expected to be more dominant in terms of number and sales concentration.

TABLE XI

PROFILE OF INDUSTRY SITUATIONS

Dimensions of Industry	Past 5 years Mean (S.D.)	Next 5 years Mean (S.D.)
Number of Firms	* 3.1 (1.5)	2.2 (1.3)
Concentration of Sales	3.2 (1.5)	3.4 (1.3)
Growth of Employment	2.4 (1.4)	2.4 (1.1)
Intensity of Competition	4.6 (.7)	4.5 (.7)
Competition from imports	3.3 (1.6)	3.6 (1.5)
Size of Industry Employment	3.1 (1.3)	2.3 (1.2)
Entry of New Firms	1.9 (1.1)	1.7 (.9)
Number of Large firms	2.4 (1.3)	2.7 (1.2)

* All measures use a 5-point scale. A high score indicates a high level for the given factor. For instance, 5 means very high/large, and 1 means low/small. The same interpretation is appropriate for the remaining tables.

Market Profile

Generally, the sample firms operated in small, fragmented markets for the past 5 years and expect little change in these characteristics for the next 5 years. Both a slight increase in the entry of new buyers into the market and a slight decrease in market growth are expected. Table XII summarizes the profile of market situations for the past 5 years and the next 5 years.

TABLE XII

PROFILE OF MARKET SITUATIONS

Dimensions of Market	Past 5 Years Mean (S.D.)	Next 5 Years Mean (S.D.)
Market Size (sales volume)	2.6 (1.3)	2.6 (1.2)
Growth of Sales Volume	2.7 (1.4)	2.4 (1.1)
Entry of New Buyers	2.3 (1.3)	2.6 (1.2)
Market Fragmentation	3.4 (1.3)	3.4 (1.2)
Heterogeneity of Markets	2.7 (1.2)	2.6 (1.1)

Company Profile

Table XIII summarizes the comapny characteristics of sample firms. The sample firms are relatively small in terms of number of employees and market share. Even though a large percentage enjoyed growth in employment and sales volume, market share growth and average return on investment measures suggest poorer performance in these areas. However, there is sufficient variation in all of the company characteristics to make interpretations of average values difficult.

TABLE XIII

PROFILE OF COMPANY SITUATION DURING THE PAST 5 YEARS(%)

Company Dimensions	Low or decline	Average	High or Large	mean (SD)
Number of Employees	49.2(90)	18.6(34)	32.2(59)	2.8 (1.3)
Sales Volume	23.5(43)	13.7(25)	62.8(115)	3.5 (1.2)
Market Share	39.9(73)	20.8(38)	39.3(72)	2.9 (1.3)
Growth of Employment	34.4(63)	13.1(24)	52.5(96)	3.3 (1.4)
Growth of Sales	39.3(72)	12.6(23)	48.1(88)	3.1 (1.4)
Growth of Market Share	50.8(93)	19.7(36)	29.5(54)	2.6 (1.3)
Return of Investment	43.7(80)	11.5(21)	44.8(82)	3.0 (1.5)
Satisfaction with Performance	23.0(42)	29.0(53)	48.0(88)	3.3 (1.1)

Strategy Profile

Strategic Objectives

Increasing market share and improving profitability and cash flow were important strategic objectives in the past and will continue to be important in the future. There does, however, appear to be a continuing emphasis on profitability. Table XIV provides the profile of strategic objectives for both periods.

Market share, profitability, and cash flow objectives cannot always be achieved simultaneously. There are obvious trade-offs among objectives. The study results indicate some of these trade-offs, but it appears that respondents did not completely differentiate these, often conflicting strategic objectives. Respondents may have confused the importance of each objective in their specific situation with the overall importance of each strategic objective to firms in general.

TABLE XIV

PROFILE OF STRATEGIC OBJECTIVES

Strategic Elements	Past 5 Years Mean (S.D.)	Next 5 Years Mean (S.D.)
Increasing Market Share	3.8 (.9)	4.0 (.9)
Improving Profitability	4.2 (.7)	4.4 (.6)
Improving Cash Flow	3.9 (.9)	4.0 (.8)

Market Scope Strategy

Table XV presents the importance of different market scope strategies during the past 5 years and for the next 5 years. Serving a broad geographic market was quite important for many firms during the past 5 years and will increase in importance during the next 5 years. Suprisingly a focused market strategy was not especially important during the past

5 years. However, respondents indicated that focusing on a few buyer segments will become more important in the future.

TABLE XV

PROFILE OF MARKET SCOPE STRATEGIES

Strategic Elements	Past 5 Years Mean (S.D.)	Next 5 Years Mean (S.D.)
Serving Broad Geographic Market	3.2 (1.2)	3.4 (1.1)
Focusing on a Few Buyer Segments	2.8 (1.1)	3.1 (1.1)

Differentiation by Product

Generally, there were not large differences in the importance of alternative product differentiation strategies. Manufacturing specialty products and offering

TABLE XVI

PROFILE OF PRODUCT STRATEGIES

Strategic Elements	Past 5 Years Mean (S.D.)	Next 5 Years Mean (S.D.)
Broadness of Product Line	3.1 (1.2)	3.2 (1.1)
Specialty Products	3.4 (1.2)	3.5 (1.3)
New Product Development	3.2 (1.2)	3.5 (1.2)
Variety of Features	3.0 (1.1)	3.2 (1.1)
Product Quality	3.4 (1.1)	3.6 (1.1)
Brand Identification	3.1 (1.4)	3.4 (1.3)

the highest product quality regardless of price were slightly more important than other strategies for both time periods. All of the product differentiation strategies will maintain or increase their importance during the next 5 years. New product development and developing brand identification showed the greatest change in importance. Table XVI reveals these trends.

Differentiation by Lower Price/Cost

The lower price strategies were not as important as other strategies during the past 5 years (see Table XVII). These strategies are not expected to increase in importance during the next 5 years. In contrast, the lowest cost position strategy was expected to be more important in the future than in the past.

TABLE XVII

PROFILE OF PRICE/COST STRATEGIES

Strategic Elements	Past 5 Years Mean (S.D.)	Next 5 Years Mean (S.D.)
Lower Price than Competitors	2.9 (1.0)	2.9 (1.0)
The Lowest Cost Among Competitors	3.0 (1.3)	3.2 (1.2)
Meet All Price Changes	2.6 (1.1)	2.6 (1.1)

Differentiation by Service

Service strategies were extremely important to sample firms during the past five years. The mean scores are extremely high and the standard deviations are extremely low for both the importance of quick delivery and response and the importance of excellent service (see Table XVIII). It appears that many of the respondent firms were trying to differentiate themselves through better service. It appears that the focus on service will continue in the future.

TABLE XVIII

PROFILE OF SERVICE STRATEGIES

Strategic Elements	Past 5 Years Mean (S.D.)	Next 5 Years Mean (S.D.)
Quick Delivery and Response	4.4 (.8)	4.5 (.7)
Excellent Customer Service	4.6 (.7)	4.7 (.5)

Research Questions

This section provides the data analysis and interpretation required to answer the research questions. The first part of the section presents the results of a factor analysis. It examines the basic structure of the data. Then, the results of a correlation analysis, designed to assess the degree of multicollinearity among independent variables, is presented. Finally, the moderated regression analyses are presented and examined.

Factor Analysis

A factor analysis was conducted among industry variables, market variables, company variables, and strategy variables respectively to examine underlying dimensions of each construct. The analysis revealed three major factors among industry variables, two factors among market variables and company variables respectively, and five factors among marketing strategies (see Appendix E).

The factor analyses generally supported the construct structure presented in Table XIX. However, several variables did not appear to belong to the hypothesized dimension and the factor loadings were generally low. These results suggest more unique variance than common variance among questionnaire items. Combining individual items into overall measures would lose valuable information. Therefore, the dicision was made to use individual item measures in analyzing the data.

Correlation Analysis

The correlations were calculated to examine potential multicollinearity among industry variables, market variables, company variables and strategy variables. The correlations among variables in each category were lower than .40 with very few exceptions. Even these exceptions were not higher than .50. This suggests that, although there are some statistically significant associations among variables,

TABLE XIX

CONSTRUCT STRUCTURE

Constructs	Dimension	Variable (abbreviation)
Industry characteristics	Industry size	Number of firms(INSIZ1)
		Size of industry employment (INSIZ2)
	Industry structure	Sales concentration(ICR)
		Number of large firms(AFSIZ)
	Industry competition	Intensity of competition(INCOMP)
		Competition from imports(IMPORT)
		Industry growth(INGROW)
		entry of new firms(ENTRY)
Market characteristics	Market size/growth	Sales volume of industry(MASIZ)
		Growth of sales volume (MAGROW)
		Entry of new buyers(NWBYER)
	Market structure	Heterogeneity of market(MAHET)
		Fragmentation of market(MAFRAG)
Company characteristics	Strategic position	Number of employees(COSIZ)
		Sales volume(COSALE)
		Market share(COMS)
	Performance	Growth of market share(MSGRO)
		Growth of sales volume(SALGRO)
		Growth of employment(EMPGRO)
		Return on investment(COROI)
		Satisfaction with performance (PERFORM)
Marketing strategy	Strategic objectives	Increasing market share(INMS)
		Improving profitability(PROF)
		Improving cash flow(IMCASH)
	Market scop strategy	Geographic market scope(GEOMA)
		Focus on a few segments(FOCUS)
	Product strategy	Product lines(BRODLIN)
		Specialty product(SPECPRO)
		New products(NEWPRO)
		Product features(VAFETUR)
		Product quality(PROQUL)
		Brand identification(BRIDEN)
	Price/cost strategy	Lower price strategy(PRICE1)
		Meeting all price change(PRICE2)
		Achieving the lowest cost(COST)
	Service strategy	Excellent service(XLSERV)
		Quick dilivery(QKSERV)

multicollinearity problems are minimal and much less than expected for this type of research.

Research Question 1

Research question 1 is:

"What specific characteristics of an industry and/or market are associated with specific strategic objectives, market scope strategies, and differentiation strategies?"

To answer this question, a stepwise regression analysis was performed using the basic regression model:

$$Y = a + b_1 I_1 + \ldots + b_i I_i + c_1 M_1 + \ldots + c_j M_j$$

Where, Y is one of strategic objectives, market scope strategies, or differentiation strategies. I_i indicates industry characteristics and i can be 1 through 8. M_j indicates characteristics of market, and j also can be 1 through 5. A is an intercept,and b and c are the beta coefficients.

The following sections present the results of the stepwise regression analyses using the above model.

Strategic Objectives

The importance of the strategic objectives was associated with the industry situation. The intensity of competition variable was significantly related to all three strategic objectives. This suggests that as competition becomes more intense firms tend to have more aggressive strategic objectives regardless of the nature of the objectives. The importance of improving profitability was also negatively associated with industry growth. Sample firms considered improving profitability to be more important when competition was intense and when industry growth was slow or declining. Table XX summarizes these relationships.

TABLE XX

SUMMARY OF STEPWISE REGRESSION ANALYSIS FOR THE STRATEGIC OBJECTIVES

Importance of Increasing Market Share	Importance of Improving Profitability	Importance of Improving Cash Flow
Intensity of competition(.21)	Intensity of competition(.28) Industry growth (-.11)	Intensity of competition(.25)
R^2=.027	R^2=.169	R^2=.038

Market Scope Strategy

The analysis failed to find an industry or market variable significantly associated with either of the market scope strategies.

Differentiation by Product

Product strategies seem to be associated more with market factors than the other strategies being investigated (see Table XXI). Market characteristics are associated with all product differentiation strategies except developing many new products. Industry size also appears to be important, since it is positively related to manufacturing speciality products, developing many new products, and offering the highest product quality. The models for speciality products and product quality illustrate the importance of incorporating both sides of the exchange system in strategy studies. These product differentiation strategies are associated with both a market and an industry characteristic.

TABLE XXI

SUMMARY OF STEPWISE REGRESSION ANALYSIS
FOR THE PRODUCT STRATEGIES

Providing a Broad Product Line	Manufacturing Specialty Product	Developing Many New Products	Offering the Highest Product Quality	Developing Brand Identification
Market growth (-.15)	Heterogeneity(.18) industry size2(.14)	Industry size2(.13)	Industry size2(.16) Market growth(-.15)	Entry of new byers (.26) Market fragmentation(.17)
R^2=.030	R^2=.053	R^2=.021	R^2=.069	R^2=.072

Differentiation by Lower Price/Cost

Each of price/cost strategies is associated with a different set of exchange system contingencies (see Table XXII). Homogeneity of market is the only significant contingency variable associated with the importance of offering lower prices than competitors. Meeting all price changes of competitors and achieving the lowest cost position are associated with a number of different contingencies that, except for market homogeneity, are industry characteristics. These results suggest that low price strategies tend to be more important when customer needs are homogenous and the industry supplying those needs is highly competitive and dominated by large firms.

TABLE XXII

SUMMARY OF STEPWISE REGRESSION ANALYSIS
FOR THE PRICE/COST STRATEGIES

Offering Lower Prices than Competitors	Achieving the Lowest Cost Position	Meeting All Price Changes of Competitors
Heterogeneity of market (-.13)	Number of large firms(.15) Concentration of sales(.13) Entry of new firms(-.17)	Intensity of competition(.24) Heterogeneity of market(-.19) Industry size2(-.16)
R^2=.024	R^2=.079	R^2=.101

<u>Differentiation by Service</u>

The importance of both service strategies was directly related to the intensity of competition. Apparently, firms try to use superior service to differentiate themselves in competitive industries. The importance of quick delivery and immediate response to customer orders was also

TABLE XXIII

SUMMARY OF STEPWISE REGRESSION ANALYSIS
FOR THE SERVICE STRATEGIES

Quick Delivery and Immediate Response to Customer Orders	Providing Excellent Customer Service
Intensity of competition(.20) Entry of new firms(-.15) Heterogeneity of market(-.12) Market fragmentation(.10)	Intensity of competition(.19)
R^2=.127	R^2=.044

associated with homogenous and fragmented markets.
Table XXIII presents the specific relationships between the importance of service strategies and important contingencies.

<u>Research Question 2</u>

Research question 2 is:

"what are the direct and interactive effects of company characteristics on the development and adaptation of strategic objectives, market scope strategies, and differentiation strategies?"

The objective is to determine how company factors affect business level marketing strategies. The conceptual framework presented in Chapter III hypothesized that company factors moderate the relationship between exchange system contingencies and marketing strategy.

Testing this conceptualization requires the development of several models for each strategic element. The general procedure consists of developing and analyzing the following models:

(1) $Y=a + b_1I_1+...+b_iI_i+c_1M_1+...+c_jM_j$

(2) $Y=a + b_1I_1+...+b_iI_i+c_1M_1+...+c_jM_j+d_1C_1+...+d_kC_k$

(3) $Y=a + b_1I_1+...+b_iI_i+c_1M_1+...+c_jM_j+d_1C_1+...+d_kC_k+ e_1(b_1I_1+...+b_iI_i+c_1M_1+...+c_jM_j)(d_1C_1+...+c_kC_k)$

Where, Y is one of strategic objectives, market scope strategies, or differentiation strategies. I_i indicates industry characteristics and i can be 1 through 8. M_j indicates characteristics of market, and j also can be 1 through 5. C_k indicates company characteristics and k can be 1 through 3. L can be any number of the combination of industry/market variables and company factors. A is an intercept,and b through e are the beta coefficients.

The company variables can be classified as one of four different types of variables:

(1) a predictor variable that is related to criterion (dependent) variable, but not to other independent variables;

(2) a homologizer moderator that is not related to the criterion variable or to the independent variables, but increases the strength of the relationship by operating on the error term;

(3) a quasi-moderator that is related to the criterion variable and also interacts with an independent variable;

(4) a pure moderator that is not related to the criterion variable, but interacts with an independent variable (Sharma, Durand and Gur-Arie 1981).

Classifying the company variables into the appropriate categories is determined by investigating three models for each strategy element. If model 1 and 2 are significantly different, and model 3 is not significantly different from model 2, then the company variable is a predictor. In this case, the company characteristic is directly related to the importance of the marketing strategy.

If model 2 is significantly different from both model 1 and model 3, then the company variable is a quasi-moderator. This means that the company variable has both a direct and an interactive effect on the importance of the marketing strategy element.

The company variable is a pure moderator when there is no significant difference between models 1 and 2, but a significant difference between models 2 and 3. This pure moderator variable changes the form of the relationship between the industry and/or market variable and the importance of the marketing strategy.

Even if there is no significant difference among models 1, 2 and 3, the company variable could be a homologizer moderator. A homologizer can be identified by dividing the company variable into homogeneous subgroups, running separate regressions for each subgroup, and comparing the R^2s of the subgroups. The R^2s are significantly different each other, the company variable can be classified as a homologizer. This means that the relationships between exchange system contingencies and marketing strategy are stronger for one company subgroup than the other.

Two approaches might be used to development the regression models: the incremental approach and the full model approach. In the incremental approach, model 1 includes all industry and market variables. Then, model 2 is forced to include industry and/or market variables which were found to be statistically significant in model 1. The direct effect of company factors are are then evaluated. Model 3 includes all statistically significant variables in model 2, but assesses interactions between the significant industry and/or market variables and company factors. This is the typical way to build moderated regression models.

In contrast, the full model approach implied by Sharma, Durand, and Gur-Arie (1981) does not build the regression models in a hierarchical fashion. Models 2 and 3 allow the inclusion of all relevant variables regardless of the results of a previous model. This approach makes it easier to identify pure moderator.

Both approaches were used in this study. However, the only results of the incremental approach are presented in detail. The overall results from both approaches are comparatively evaluated at the end of the chapter.

Strategic Objectives

Table XXIV summarizes the results of three models which show the effects of company factors on the importance of strategic objectives. The table suggests that company factors can have different effects depending upon the type of strategic objective. Market share is a predictor of the importance of increasing market share. Market share and company sales act as homologizers in the profitability.

TABLE XXIV

MODERATED STEPWISE REGRESSION ANALYSIS
FOR STRATEGIC OBJECTIVES

Dependent Variable: Importance of Increasing Market Share

Model 1	INCOMP(.21)	R^2=.027
Model 2	INCOMP(.22)+COMS(.12)	R^2=.059
Model 3	INCOMP(.22)+COMS(.12)	R^2=.059

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INCOMP	.23	.13	.15	.23	.17	.19
R^2	.054	.017	.021	.052	.030	.035
Ad-R^2	.040	.009	.013	.036	.021	.021

Dependent Variable: Importance of Improving Profitability

Model 1	INCOMP(.28)+INGROW(-.11)	R^2=.169
Model 2	INCOMP(.28)+INGROW(-.11)	R^2=.169
Model 3	INCOMP(.28)+INGROW(-.11)	R^2=.169

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INCOMP	.45	.24	.25	.37	.32	.22
INGROW	-.23	-.17	-.30	-.08	-.30	-.04
R^2	.330	.107	.201	.149	.252	.055
Ad-R^2	.309	.091	.188	.119	.238	.027

Dependent Variable: Importance of Improving Cash Flow

Model 1	INCOMP(.25)	R^2=.038
Model 2	INCOMP(.25)	R^2=.038
Model 3	INCOMP(.25)	R^2=.038

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INCOMP	.32	.14	.17	.26	.21	.14
R^2	.103	.019	.028	.070	.045	.021
Ad-R^2	.090	.010	.020	.053	.037	.007

Thus, the relationships between intensity of competition, industry growth, and the importance of improving profitability are much stronger for low sales and low market share firms. Low sales firms also tend to consider improving cash flow as an important strategic objective when competition is intense.

Market Scope Strategy

None of industry, market or company variables were significantly related to geographical market scope. However, Company size had an direct association with the importance of a focus strategy (R^2=.025). Concentrating on a few segments of the market was important to smaller firms.

Differentiation by Product

Company factors were found to have different effects on the various product differentiation strategies (see Table XXV). Company characteristics had no effect on product strategies in three cases, but operated as homologizers in two cases and as a pure moderator in one case. These results suggest that the importance of developing many new products and developing brand identification depend upon the exchange system contingencies. Firms with different characteristics responded to the industry/market situation in a similar manner for these strategies.

In contrast, the importance of providing a broad assortment of products, offering the highest product quality, and manufacturing speciality products depend upon exchange system and company characteristics. For example, the nagative relationship between the importance of providing a broad assortment of products and market growth is moderated by company sales. The form of this relationship is different for firms with low sales volumes than for those with high sales volume. In addition, the strength of the relationship between the importance of offering the highest product quality or manufacturing speciality products and industry/market factors is generally stronger for smaller firms than for larger firms. These results illustrate several ways that company factors might affect marketing strategy relationships.

TABLE XXV

RESULTS OF MODERATED STEPWISE REGRESSION ANALYSIS FOR PRODUCT STRATEGIES

Dependent Variable: Providing a Broad Assortment of Products

Model 1	MAGROW(-.15)	R^2=.030
Model 2	MAGROW(-.15)	R^2=.030
Model 3	MAGROW(-.32)+MAGROW*COSALE(.05)	R^2=.054

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
MAGROW	-.26	-.11	-.22	-.06	-.26	-.04
R^2	.070	.012	.050	.003	.067	.002
Ad-R^2	.056	.004	.042	-.014	.059	-.013

Dependent Variable: Offering the Highest Product Quality Regardless of Price

Model 1	INSIZ2(.16)+MAGROW(-.15)	R^2=.069
Model 2	INSIZ2(.16)+MAGROW(-.15)	R^2=.069
Model 3	INSIZ2(.16)+MAGROW(-.15)	R^2=.069

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INSIZ2	.45	.06	.25	.06	.28	.03
MAGROW	-.16	-.15	-.14	-.25	-.19	-.13
R^2	.260	.024	.088	.061	.128	.016
Ad-R^2	.237	.006	.073	.027	.112	-.013

Dependent Variable: Manufacturing Specialty Products

Model 1	MAHET(.18)+INSIZ2(.14)	R^2=.053
Model 2	MAHET(.18)+INSIZ2(.14)	R^2=.053
Model 3	MAHET(.18)+INSIZ2(.14)	R^2=.053

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
MAHET	.18	.18	.19	.13	.18	.17
INSIZ2	.18	.14	.22	.01	.23	.07
R^2	.065	.052	.088	.017	.086	.030
Ad-R^2	.036	.035	.073	-.019	.069	.002

Dependent Variable: Developing Many New Products

Model 1	INSIZ2(.13)	R^2=.021
Model 2	INSIZ2(.13)	R^2=.021
Model 3	INSIZ2(.13)	R^2=.021

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INSIZ2	.15	.16	.12	.21	.12	.18
R^2	.023	.025	.014	.044	.014	.034
Ad-R^2	.008	.016	.006	.027	.005	.020

Dependent Variable: Developing Brand Identification

Model 1	NWBYER(.26)+MAFRAG(.17)	R^2=.072
Model 2	NWBYER(.26)+MAFRAG(.17)	R^2=.072
Model 3	NWBYER(.26)+MAFRAG(.17)	R^2=.072

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
NWBYER	.27	.19	.27	.15	.17	.29
MAFRAG	.12	.16	.12	.18	.17	.12
R^2	.090	.058	.089	.053	.058	.099
Ad-R^2	.062	.042	.074	.019	.040	.073

Differentiation by Price/Cost

Table XXVI presents the effects of company factors on the importance of the price/cost strategies. Company factors operate as homologizers in two cases and as pure moderators in one case. The importance of meeting all price changes is associated with a complex set of industry, market, and company factors. Both company sales and company size moderate the relationship between the exchange system and marketing strategy. The incorporation of the company moderator variables almost doubles the explanatory power of the model that only contains industry and market factors.

The strength of the relationships between both the importance of offering lower prices than competitors and achieving the lowest cost position depend upon company sales volume. The relationships are stronger for firms with low sales volume. Thus, sales volume operates as a homologizer for these two strategies.

Differentiation by Service

Company characteristics appear to be homologizers for the service strategies (see Table XXVII). The analyses suggest that providing excellent customer service is more important for low sales firms than high sales firms in highly competitive industries. The relationships concerning the importance of quick delivery and immediate response are somewhat contradictory. They suggest stronger relationships

TABLE XXVI

RESULTS OF MODERATED STEPWISE REGRESSION ANALYSIS FOR PRICE/COST STRATEGIES

Dependent Variable: Offering Lower Prices than Competitors

Model 1	MAHET(-.13)	R^2=.024
Model 2	MAHET(-.13)	R^2=.024
Model 3	MAHET(-.13)	R^2=.024

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
MAHET	-.30	-.07	-.21	-.01	-.22	-.04
R^2	.089	.005	.044	.000	.049	.002
Ad-R^2	.076	-.004	.036	-.018	.040	-.013

Dependent Variable: Meeting All Price Changes of Competitors

Model 1	MAHET(-.19)+INSIZ2(-.16)+INCOMP(.24)	R^2=.101
Model 2	MAHET(-.19)+INSIZ2(-.16)+INCOMP(.24)	R^2=.101
Model 3	MAHET(-.68)+INSIZ2(-.12)+INCOMP(.45)+ MAHET*COSALE(.05)+MAHET*COSIZ(.12)	R^2=.185

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
MAHET	-.33	-.12	-.34	.11	-.27	-.07
INSIZ2	-.27	-.12	-.22	-.05	-.25	-.09
INCOMP	.17	.17	.16	.06	.21	.06
R^2	.207	.057	.205	.019	.189	.013
Ad-R^2	.169	.031	.185	-.035	.166	-.031

Dependent Variable: Achieving the Lowest Cost Position in the Industry

Model 1	AFSIZ(.15)+ICR(.13)+ENTRY(-.17)	R^2=.079
Model 2	AFSIZ(.15)+ICR(.13)+ENTRY(-.17)	R^2=.079
Model 3	AFSIZ(.15)+ICR(.13)+ENTRY(-.17)	R^2=.079

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
AFSIZ	.34	.05	.17	.14	.22	.06
ICR	.15	.15	.16	.13	.11	.20
ENTRY	-.12	-.18	-.14	-.17	-.12	-.18
R^2	.162	.063	.085	.073	.085	.093
Ad-R^2	.123	.038	.062	.023	.059	.053

for both high sales volume firms and for small market share firms. It appears that different variables are important when grouping firms by sales volume and market share. For example, in the sales volume subgroup analysis the entry of new firms into the industry is the differentiating variable.

TABLE XXVII

RESULTS OF MODERATED STEPWISE REGRESSION ANALYSIS FOR SERVICE STRATEGIES

Dependent Variable: Providing Excellent Customer Service

Model 1	INCOMP(.19)	R^2=.044
Model 2	INCOMP(.19)	R^2=.044
Model 3	INCOMP(.19)	R^2=.044

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INCOMP	.22	.19	.22	.19	.19	.24
R^2	.106	.026	.047	.037	.036	.059
Ad-R^2	.093	.018	.039	.020	.027	.045

Dependent Variable: Quick Delivery and Immediate Response to Customer Orders

Model 1	INCOMP(.20)+ENTRY(-.15)+MAHET(-.12)+MAFRAG(.10)	R^2=.127
Model 2	INCOMP(.20)+ENTRY(-.15)+MAHET(-.12)+MAFRAG(.10)	R^2=.127
Model 3	INCOMP(.20)+ENTRY(-.15)+MAHET(-.12)+MAFRAG(.10)	R^2=.127

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
INCOMP	.22	.18	.18	.14	.17	.21
ENTRY	-.06	-.28	-.28	-.12	-.22	-.17
MAHET	-.15	-.16	-.22	-.01	-.24	-.02
MAFRAG	.15	.13	.04	.40	.14	.21
R^2	.104	.158	.164	.191	.154	.120
Ad-R^2	.047	.127	.136	.131	.122	.067

When subgroups are based on market share, the homogeneity of the market has the most impact. These findings are interesting and further illustrate the complexities involved in studying marketing strategy relationships.

Research Question 3

Research question 3 is:

> What changes in the characteristics of an industry, market and/or company will lead to changes in strategic objectives, market scope strategies, and differentiation strategies?

To answer this question, the same models were developed as for research question 2. Changes in market, industry, and strategy were calculated by subtracting the past score from the future score for each variable.

Strategic Objectives

Table XXVIII summarizes the relationships between changes in contingencies and changes in the importance of each strategic objective. The factors related to the increased importance of strategic objectives are a reduction of industry size, increased intensity of competition, the entry of new buyers, and satisfaction with the past performance. Company factors operate as predictors, homologizers, and pure moderators in these relationships. Firms apparently change their strategic objectives as a response to changes in industry/market conditons and/or because they are dissatified with their current performance.

TABLE XXVIII

ESULTS OF MODERATED STEPWISE REGRESSION ANALYSIS
FOR CHANGES OF STRATEGIC OBJECTIVES

Increasing market share

Model 1	CINSIZ2(-.09)+CNWBYER(.10)	R^2=.046
Model 2	CINSIZ2(-.09)+CNWBYER(.10)	R^2=.046
Model 3	CINSIZ2(-.09)+CNWBYER(.10)	R^2=.046

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
CINSIZ2	-.17	-.15	-.21	-.03	-.14	-.11
CNWBYER	.22	.12	.23	.02	.11	.15
R^2	.082	.032	.100	.001	.031	.028
Ad-R^2	.053	.015	.085	-.034	.013	.000

Improving profitability

Model 1	CINCOMP(.13)	R^2=.025
Model 2	CINCOMP(.16)+PERFORM(-.12)	R^2=.061
Model 3	CINCOMP(-.07)+PERFORM(-.11)+CINCOMP*COMS(.09)	R^2=.081

Improving cash flow

Model 1		
Model 2	PERFORM(-.14)	R^2=.031
Model 2	PERFORM(-.14)	R^2=.031

Market Scope and Product Differentiation Strategies

In general, changes in market and industry characteristics were not associated with specific changes in market scope or product differentiation strategies. The only relationship found in these analyses was between increased importance of a market focus strategy in decling industries. It may be that the market scope and product strategies are long run in nature and that firms do not change these strategies except when drastic changes occur.

Price/Cost Strategies

Changes in the importance of price/cost strategies was associated with changes in industry contingencies. As shown in Table XXIX, company factors moderate this relationship in two cases. A firm's sales volume appears to be an important consideration in how the firm adjusts its pricing strategy to changes in the exchange system. Interestingly, only

TABLE XXIX

RESULTS OF MODERATED STEPWISE REGRESSION ANALYSIS FOR CHANGES OF PRICE/COST STRATEGIES

Offering lower price		
Model 1	CAFSIZ(.12)	R^2=.035
Model 2	CAFSIZ(.12)	R^2=.035
Model 3	CAFSIZ(.40)+CAFSIZ*COSALE(-.07)	R^2=.056
Meeting all price changes of competitors		
Model 1	CINSIZ2(-.10)+CICR(-.08)	R^2=.049
Model 2	CINSIZ2(-.10)+CICR(-.08)	R^2=.049
Model 3	CINSIZ2(-.10)+CICR(-.08)	R^2=.049

Subgroup Analysis:

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
CINSIZ2	.14	.20	-.15	-.27	-.18	-.19
CICR	-.12	-.12	-.15	-.19	-.22	-.06
R^2	.026	.056	.039	.075	.065	.033
Ad-R^2	-.004	.039	.023	.042	.048	.005

Achieving the lowest cost position		
Model 1	CINSIZ1(-.14)+IMPORT(.11)	R^2=.057
Model 2	CINSIZ1(-.14)+IMPORT(.11)	R^2=.057
Model 3	CINSIZ1(-.35)+IMPORT(.10)+CINSIZ1*COSALE(.06)	R^2=.078

changes in industry factors were found to be related to changes in the importance of price/cost strategies. Changes in market factors were not significant in any of the models.

Service Strategies

Decreasing market size was the only variable associated with changes in the importance of service strategies. Company factors appear to have only a minimal impact on service strategy changes. However, the subgroup analysis suggests that the relationship between market size and the

TABLE XXX

RESULTS OF MODERATED STEPWISE REGRESSION ANALYSIS FOR CHANGES OF SERVICE STRATEGIES

Excellence customer service

Model 1	CMASIZ(-.06)	R^2=.030
Model 2	CMASIZ(-.06)	R^2=.030
Model 3	CMASIZ(-.06)	R^2=.030

Subgroup analysis

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
Cmasiz	-.09	-.22	-.24	-.02	-.29	-.03
R^2	.007	.049	.059	.000	.082	.000
Ad-R^2	-.008	.041	.051	-.017	.074	-.014

Quick service and immediate response

Model 1	CMASIZ(-.07)	R^2=.028
Model 1	CMASIZ(-.07)	R^2=.028
Model 1	CMASIZ(-.07)	R^2=.028

Subgroup analysis

	Lowsal	Highsal	SmalFirm	LargFirm	SmalShar	LargShar
Cmasiz	-.28	-.08	-.17	-.21	-.18	-.16
R^2	.083	.007	.028	.047	.032	.026
Ad-R^2	.069	-.002	.020	.030	.023	.012

excellent service strategy is stronger for small size and small market share firms than for large size and large share firms. The increased importance of quick service and immediate response to customer orders is also stronger among high sales firms than among the low sales firms. Therefore, company factors do act as homologizers (see Table XXX).

Summary of Results

The focus of this study was to investigate relationships between exchange system contingencies and the importance of business level marketing strategies. In genaral, the industry factors had more of an impact on with importance of marketing strategies. Industry factors were significant in eleven of the sixteen strategy relationships for the past five years and in six of the strategy change relationships. Market factors, in contrast, were significant in seven past and three change models. These results suggest that industry and market characteristics are important marketing strategy contingencies. However, the firms in this study appears to consider industry factors more often than market factors when developing strategies.

Company factors were found to play an important role in the development of business level marketing strategies. When analyzing strategy relationships for the past 5 years, company variables were not significant in only four cases. Company characteristics had a direct effect for two strategies, a pure moderator effect for two strategies, and operated as homologizers in eight cases. When analyzing strategy changes, company factors had a direct effect in one case and were related to strategy changes as homologizers and pure moderators for three strategies each.

The research results provide strong evidence for the need to address company factors in strategy studies. It appears that company characteristics operate in different ways for different strategy elements. However, the results suggest that company variables most often affect the strength of the relationship between exchange system contingencies and the importance of different aspects of marketing strategy. But they also might have a direct effect or affect the form of specific relationships. The important implication of these findings is that strategy researches need to address the potential impacts of company factors in their strategy studies.

Comparison of Two Model Building Approaches

The incremental approach and the full model approach were both used in this study, although detailed results are only presented for the incremental approach. Table XXXI presents summary results comparing the two approaches. The approaches achieve identical results in identifying the direct effect of company factors.

However, the approaches are different in detecting the interaction effects of company variables. The full model approach results in more pure moderator company factors. For

TABLE XXXI

A COMPARISON OF THE RESULTS OF TWO MODEL BUILDING APPROACHES

Marketing strategies	Incremental Approach			Full Model Approach		
	Market share	Sales volume	Firm size	Market share	Sales volume	Firm size
Increasing market share	P			P		
Improving profitability	H	H		PM	PM	
Improving cash flow		H		PM		
Geographic market scope						
Focus on a few segments			P			P
Broadness of product line		PM		PM		
Product quality	H	H		H	H	
Specialty product	H		H	H		H
New product development						
Variety of features				PM		
Brand identification				PM		PM
Offering lower price		H			H	
Meeting all price changes	H	PM	PM	H	PM	PM
The lowest cost position		H			PM	
The excellent service		H		H		
The quick service		H				PM

P....Predictor PM ......Pure moderator H ...Homologizer example, objectives a homologizer in the incremental approach would be a pure moderator in the full model approach. This is because the full model approach allows interaction terms to enter the model before direct effects have been established. The incremental approach establishes direct effects and then assesses the ability of interactive effects to add significantly to the explained variation. Thus, both approaches are similar in the identification of moderators, but differ in how these variables are classified into moderator categories. Reconciling the differences between these approaches beyond the scope of this study, but is an area in need of research attention.

Chapter V discusses the implications and limitations of this study and suggests directions for future research.

CHAPTER V

DISCUSSION, LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This chapter discusses the findings, describes some limitations of the study and suggests some directions for future research.

Discussions

Contingency theories contend that the appropriateness of different strategies depends on the competitive setting, Thus, to build a contingency model of business level strategy, researchers should first identif~~ies~~y the relevant contingency variables (Hambrick and Lei 1985). This study found that both industry and market contingencies affect business level marketing strategies. These findings suggest that both sides of the exchange system should be evaluated when investigating business level marketing strategies. Since marketing paradigms have typically focused on the market side, marketers must expand their perspective to include industry factors in their analyses. The critical contingency for strategy development is the exchange system. The exchange system facing any firm consists of both industry and market elements.

The most important contribution of this research is the insight it suggests concerning how company factors affect the strategic behavior of firms. Researchers have generally only investigated the direct effect of company factors. If no direct effect is found, the conclusion is that company variables are not an important consideration. The study results clearly identify problems with this approach.

The findings suggest that company factors are most often moderators. As moderators, the company variables either change the form or the strength of the relationship between the exchange system contingencies and the importance of marketing strategies rather than being a predictor of strategic behaviors. In other words, company factors amplify or reduce the effects of exchange system contingencies on the ~~the~~ importance of various marketing strategies.

Identifying the specific role of company factors in strategy development adds an important dimension to our understanding of strategic behavior. The inclusion of company variables significantly improved the explanatory power of most of the strategy regression models. The interpretation of these models produced important insight concerning strategic behaviors. For example, the classification of company factors as predictors, homologizers, or pure moderators results in a different interpretation of the effect of company characteristics. As predictors, company factors have a direct effect on strategic behavior. As homologizers or moderators, the characteristics of a company influence the strength or the form of the relationships between contingency variables and strategy. Thus, a more rigorous understanding of the impact of company factors can be developed.

Limitations

Although the research results are important and interesting the study was exploratory and has several limitations. These limitations suggest areas for improvement in future strategy research.

The amount of variation explained by the market, industry, and company variables was lower than anticipated. There are several possible reasons for the low levels of explanation. First, the strategy elements addressed in the study were very general and not natually exclusive. Thus, many of the strategies could be appropriate in different exchange system situations and many firms could indicate that several strategic elements were important. Second, business level strategy is, by definition, relatively long term in nature. The research data covered 5 year~~s~~ periods to reflect this temporal nature, but 5 year periods may be too long for respondents to provide accurate assessments of the environment and strategy. Finally, only linear models were evaluated, even though it is likely that strategy relationships are inherently nonlinear.

Another limitation of the study is in the area of measurement. All variables were measured by single items from the survey questionnaire. It was not possible to employ multiple data sources and multiple item measures. Therefore, validity and reliability assessments cannot be performed.

A final limitation concerns the scope and focus of the study. The study was limited to a relatively small number of industry and market variables. The addition of additional contingency variables may have improved the results. Also, the study focused on the relationships between exchange system contingencies and the importance of business level marketing strategies. No attempt was made to evaluate relationships between strategies and performance.

In spite of these limitations, the study makes an important contribution to the marketing strategy literature. The limitations do, however, provide a basis for suggesting future research directions.

Future Research Directions

Several directions for future strategy research can be suggested. First, this study illustrated the importance of exchange system contingencies for business level marketing strategies. Additional research is needed to improve our understanding of relationships between the supply side (industry) and demand side (market) of the exchange system. More precise conceptualizations and concentrated research attention are needed.

Second, future research efforts need to focus on the measurement area. These efforts should start by improving the definitions of strategy constructs. Strategy constructs need to be more explicitly defined to include comprehensive delineations of the domain and dimensionality of each construct. Thus, multiple items from multiple data sources need to be developed to measure each dimension of each constuct. Obviously, this approach requires a series of studies which continually assess the reliability and validity of measures. Although difficult, continuous research efforts are the only way to achieve the construct validation needed in the strategy area.

Third, the role of company factors needs to be developed and tested more fully. The conceptual framework used in this study suggested that company factors operated as moderator variables. However, the research found instances where company variables were predictors. In addition, company characteristics were found to operate as different types of moderators. Additional work is needed to determine when and why company factors have different effects on strategic behavior. These studies should also investigate a more diverse group of company characteristics than evaluated in this study.

Fourth, temporal aspects of marketing strategy need to be considered more seriously. Clearly, longitudinals are desirable, but often impossible. Therefore, cross-sectional designs are likely to continue to be the dominant strategy research approsch. A critical decision in cross-sectional designs is the time frame of the analysis. Different strategy levels requires different time frames. The results of this study suggest that a 5 year period may be too long for business level market strategy studies. Future studies should consider using a 3 year period of analysis. In fact, researchers need to investigate specifically the time period issue. This is especially important in the rapidly changing contemporary environment.

Fifth, future studies should include more marketing strategy elements. This study was limited to product and price elements. The areas of distribution and promotion offer ways for firms to differentiate themselves at the business level and should be investigated in future research.

Finally, analytical approaches for identifying and classifying moderator variables need to be evaluated. The incremental and full model approaches used in this study represent different orientations that will produce somewhat different results. These differences need to be reconciled and improved methodological approaches developed.

Summary

The dissertation research investigated relationship between exchange system contingencies and the importance of business level marketing strategies. The study focused on the role of company factors as moderators of the relationships between exchange system contingencies and marketing strategies. Research results suggest that both industry and market factors are important marketing strategy contingencies. In addition, company factors were found to operate in different ways, but generally, were moderator variables and most often homologizers. Although exploratory, the findings represent an important contribution to the marketing strategy literature and are suggestive of special directions for future research.

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APPENDIX A

QUESTIONNAIRE USED FOR THE STUDY

Questionnaire Number ____________

Oklahoma State University

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER OKLAHOMA 74078
(405) 624-5064

A SURVEY ON

THE BUSINESS ENVIRONMENT AND MARKETING STRATEGY

OKLAHOMA STATE UNIVERSITY

College of Business Administration

Stillwater, Oklahoma

Instructions

On the following pages, you will be requested to provide information about the nature of your business environment and marketing strategy. The questions concern your perceptions as a member of the management team in your company. Therefore, there are no right or wrong answers. Your responses will be confidential. Only summary results will be reported. Please read the directions to each set of questions carefully and do not skip any questions.

Indicate the industry in which the majority of your company's sales are made: ____ industry. In responding to the questions on later pages, please do so with only the above industry in mind.

CENTENNIAL DECADE 1980 • 1990

I. CURRENT BUSINESS ENVIRONMENT

INDUSTRY CHARACTERISTICS

Consider YOUR INDUSTRY SITUATION DURING THE PAST 5 YEARS. For each of the following statements, please circle the number that best represents your level of agreement with the statement. In considering each statement, COMPARE YOUR INDUSTRY TO OTHER MANUFACTURING INDUSTRIES.

FOR EXAMPLE:

COMPARED TO OTHER MANUFACTURING INDUSTRIES DURING THE PAST 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
1. A large number of firms left our industry.	1	2	3	4	5
2. There were many technological changes in our industry.	1	2	3	4	5

The answers shown above reflect that a few firms left your industry and that there were some technological changes in your industry during the past 5 years when compared to other manufacturing industries.

COMPARED TO OTHER MANUFACTURING INDUSTRIES DURING THE PAST 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
1. There were a large number of firms in our industry.	1	2	3	4	5
2. Most sales in our industry were made by just a few firms.	1	2	3	4	5
3. The total number of employees in our industry declined.	1	2	3	4	5
4. Competition among firms in our industry was very intense.	1	2	3	4	5
5. There was little competition from imports in our industry.	1	2	3	4	5
6. There were a large number of employees in our industry.	1	2	3	4	5
7. A large number of firms entered our industry.	1	2	3	4	5
8. Most firms in our industry were small.	1	2	3	4	5

MARKET CHARACTERISTICS

Consider the MARKET SERVED BY YOUR INDUSTRY DURING THE PAST 5 YEARS. For each of the following statements, please circle the number that best represents your level of agreement with the statement. In considering each statement, COMPARE YOUR INDUSTRY'S MARKET TO THE MARKETS OF OTHER MANUFACTURING INDUSTRIES.

COMPARED TO THE MARKETS OF OTHER INDUSTRIES DURING THE PAST 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
1. Total sales by our industry were very high.	1	2	3	4	5
2. Total sales by our industry grew very slowly.	1	2	3	4	5
3. Many new buyers entered our industry's market.	1	2	3	4	5
4. Our industry's market consisted of many small-volume buyers.	1	2	3	4	5
5. Most buyers in our industry's market wanted the same product features.	1	2	3	4	5

COMPANY CHARACTERISTICS

Consider YOUR COMPANY DURING THE PAST 5 YEARS. For each of the following statements, please circle the number that best represents your level of agreement with the statement. In considering each statement, COMPARE YOUR COMPANY TO COMPETITORS IN YOUR INDUSTRY.

COMPARED TO COMPETITORS IN OUR INDUSTRY DURING THE PAST 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
1. Our company had a large number of employees.	1	2	3	4	5
2. Our company sales were very low.	1	2	3	4	5
3. Our number of employees has decreased significantly.	1	2	3	4	5
4. Our sales increased substantially.	1	2	3	4	5
5. Our market share was very high.	1	2	3	4	5
6. Our market share grew rapidly.	1	2	3	4	5
7. Our average after-tax return on investment was very low.	1	2	3	4	5

MARKETING STRATEGY

Firms tend to use different marketing strategies depending upon their unique situation. Consider YOUR FIRM'S MARKETING STRATEGY FOR THE PAST 5 YEARS. For each of the following strategic elements, please circle the number that best represents HOW IMPORTANT THAT STRATEGIC ELEMENT WAS IN YOUR OVERALL MARKETING STRATEGY.

HOW IMPORTANT WAS EACH STRATEGIC ELEMENT DURING THE PAST 5 YEARS:	not at all important	not very important	somewhat important	very important	extremely important
1. Increasing market share.	1	2	3	4	5
2. Improving profitability.	1	2	3	4	5
3. Improving cash flow.	1	2	3	4	5
4. Serving a broad geographic market.	1	2	3	4	5
5. Focusing on a few buyer segments within our geographic market.	1	2	3	4	5
6. Providing a broad assortment of products.	1	2	3	4	5
7. Manufacturing specialty products.	1	2	3	4	5
8. Developing many new products.	1	2	3	4	5
9. Offering a variety of features for existing products.	1	2	3	4	5
10. Offering the highest product quality regardless of price.	1	2	3	4	5
11. Developing brand identification.	1	2	3	4	5
12. Quick delivery and immediate response to customer orders.	1	2	3	4	5
13. Providing excellent customer service.	1	2	3	4	5
14. Offering lower prices than competitors.	1	2	3	4	5
15. Achieving the lowest cost position in the industry.	1	2	3	4	5
16. Meeting all price changes of competitors.	1	2	3	4	5
17. Maintaining lower wage and salary levels than competitors.	1	2	3	4	5
18. Investing in new facilities to gain a competitive advantage.	1	2	3	4	5

II. FUTURE BUSINESS ENVIRONMENT

EXPECTED CHANGES IN THE INDUSTRY

Consider YOUR EXPECTED INDUSTRY SITUATION FOR THE NEXT 5 YEARS. For each of the following statements, please circle the number that best represents your level of agreement with the statement. In considering each statement, COMPARE YOUR INDUSTRY TO OTHER MANUFACTURING INDUSTRIES.

COMPARED TO OTHER MANUFACTURING INDUSTRIES DURING THE NEXT 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
1. There will be a large number of firms in our industry.	1	2	3	4	5
2. Most sales in our industry will be made by just a few firms.	1	2	3	4	5
3. The total number of employees in our industry will decline.	1	2	3	4	5
4. Competition among firms in our industry will be very intense.	1	2	3	4	5
5. There will be little competition from imports in our industry.	1	2	3	4	5
6. There will be a large number of employees in our industry.	1	2	3	4	5
7. A large number of firms will enter our industry.	1	2	3	4	5
8. Most firms in our industry will be small.	1	2	3	4	5

EXPECTED CHANGES IN THE MARKET

Consider the EXPECTED CHANGES IN THE MARKET SERVED BY YOUR INDUSTRY FOR THE NEXT 5 YEARS. For each of the following statements, please circle the number that best represents your level of agreement with the statement. In considering each statement, COMPARE YOUR INDUSTRY'S MARKET TO THE MARKETS OF OTHER MANUFACTURING INDUSTRIES.

COMPARED TO THE MARKETS OF OTHER INDUSTRIES DURING THE NEXT 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
1. Total sales by our industry will be very high.	1	2	3	4	5
2. Total sales by our industry will grow very slowly.	1	2	3	4	5

COMPARED TO THE MARKETS OF OTHER INDUSTRIES DURING THE NEXT 5 YEARS:	strongly disagree	moderately disagree	neither agree nor disagree	moderately agree	strongly agree
3. Many new buyers will enter our industry's market.	1	2	3	4	5
4. Our industry's market will consist of many small-volume buyers.	1	2	3	4	5
5. Most buyers in our industry's market will want the same product features.	1	2	3	4	5

EXPECTED CHANGES IN THE MARKETING STRATEGY

Firms tend to change their marketing strategy if their business situation changes. Please consider YOUR FIRM'S EXPECTED MARKETING STRATEGY FOR THE NEXT 5 YEARS. For each of the following strategic elements, circle the number that best represents HOW IMPORTANT THAT STRATEGIC ELEMENT WILL BE IN YOUR OVERALL MARKETING STRATEGY.

HOW IMPORTANT WILL EACH STRATEGIC ELEMENT BE DURING THE NEXT 5 YEARS:	will not be at all important	will not be very important	will be somewhat important	will be very important	will be extremely important
1. Increasing market share.	1	2	3	4	5
2. Improving profitability.	1	2	3	4	5
3. Improving cash flow.	1	2	3	4	5
4. Serving a broad geographic market.	1	2	3	4	5
5. Focusing on a few buyer segments within our geographic market.	1	2	3	4	5
6. Providing a broad assortment of products.	1	2	3	4	5
7. Manufacturing specialty products.	1	2	3	4	5
8. Developing many new products.	1	2	3	4	5
9. Offering a variety of features for existing products.	1	2	3	4	5
10. Offering the highest product quality regardless of price.	1	2	3	4	5
11. Developing brand identification.	1	2	3	4	5
12. Quick delivery and immediate response to customer orders.	1	2	3	4	5

HOW IMPORTANT WILL EACH STRATEGIC ELEMENT BE DURING THE NEXT 5 YEARS:	will not be at all important	will not be very important	will be somewhat important	will be very important	will be extremely important
13. Providing excellent customer service.	1	2	3	4	5
14. Offering lower prices than competitors.	1	2	3	4	5
15. Achieving the lowest cost position in the industry.	1	2	3	4	5
16. Meeting all price changes of competitors.	1	2	3	4	5
17. Maintaining lower wage and salary levels than competitors.	1	2	3	4	5
18. Investing in new facilities to gain competitive advantage.	1	2	3	4	5

III. BACKGROUND CHARACTERISTICS

1. Your company is:

_________ An independent company   _________ A division or subsidiary of another firm

2. Please circle the number that best describes your company's geographic market:

a regional market within the U.S.		the total U.S. market		a worldwide market
1	2	3	4	5

3. Please circle the number that best describes your degree of satisfaction with your company's performance during the past 5 years:

extremely dissatisfied				extremely satisfied
1	2	3	4	5

4. What is your present position in your company?

____

We are extremely interested in your ideas concerning marketing strategy. Please use the space provided below to share your experiences and insights with us. Remember that all of your comments will be kept confidential.

If you would like a copy of the final report from this study, please provide your name and mailing address:

____

____

____

____

APPENDIX B

PRENOTIFICATION LETTER

Oklahoma State University

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74078
(405) 624-5064

October 7, 1985

Mr. Jim Busby
Owner
Air Center Inc.
P. O. Box 32168
Oklahoma City, OK 73123

Dear Mr. Busby:

As part of the continuing efforts of the College of Business Administration to assist in the economic development of Oklahoma, a survey of approximately 500 state business firms and 500 non-Oklahoma firms has been initiated by the college. The purpose of this survey is to discover those strategic decision-making activities that characterize Oklahoma firms and firms from outside the state. Your firm has been randomly selected to be included in this survey.

I hope you will participate in this effort by sharing the information concerning your firm that is requested in the survey. The survey will be mailed to you within two weeks. You can be assured that all replies will be kept confidential and that only a summary of responses will be reported.

In advance, I want to express our appreciation for your participation in this survey. We are confident that the results will be beneficial to Oklahoma business leaders and will assist in the economic development of the state. For your participation, we will be glad to send you a copy of the final report when the study is completed.

Sincerely,

Robert L. Sandmeyer
Dean

RLS:sah

Enclosure

CENTENNIAL
DECADE
1980 • 1990

APPENDIX C

INDIVIDUALIZED COVER LETTER

OSU

Oklahoma State University

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74078
(405) 624-5064

October 17, 1985

Mr. R. D. Helm
H. C. Tucker Industries, Inc.
P. O. Box 518
Hominy, OK 74035

Dear Mr. Helm:

Enclosed is a copy of the questionnaire for the strategic decision-making study discussed in my letter of October 7, 1985. Because your participation is crucial to the success of this study, we would appreciate your cooperation in completing the questionnaire. It should take you no more than fifteen minutes.

A business reply envelope is provided for your convenience. Please return the completed questionnaire by November 1, 1985.

You can be assured that your responses will be kept completely confidential. We are only interested in analyzing and reporting the summary data from all respondents. If you would like a copy of the final report, please write your name and address at the end of the questionnaire. We plan to have the study completed by March 1986.

Thank you very much for participating in this study. We are confident that you will find the study results to be beneficial.

Sincerely,

Robert Sandmeyer

Robert L. Sandmeyer
Dean

RLS/sh

Enclosure

APPENDIX D

FOLLOW-UP LETTER

OSU

Oklahoma State University

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74078
(405) 624-5064

November 8, 1985

Mr. Roger Teigen
President
Altus Athletic Mfg. Co.
421 W. Broadway
Altus, OK 73521

Dear Mr. Teigen:

Your participation in our strategic decision-making study is crucial to the success of the project. If you have returned the completed questionnaire, I would like to express my appreciation for your contribution to the study. If not, please complete the enclosed questionnaire and return it in the business reply envelope.

Thank you for your assistance. We are eager to begin analyzing the data and preparing the final report.

Sincerely,

Robert L. Sandmeyer
Dean

RLS/sh

Enclosures

CENTENNIAL DECADE
1980 • 1990

APPENDIX E

ADDITIONAL TABLES

Table 1. Industry Situation during the Past 5 Years

Industry Dimensions	Low or Small	Average	High or Large	mean (SD)
Number of Firms	40.9%(75)	5.5 (10)	53.6 (98)	3.1 (1.5)
Concentration of Sales	38.8 (71)	5.5 (10)	55.7(102)	3.2 (1.5)
Growth of Employment	57.9(106)	15.3 (28)	26.8 (49)	2.4 (1.4)
Intensity of Competition	3.8 (7)	2.2 (4)	94.0(172)	4.6 (.7)
Competition from Imports	39.3 (72)	4.9 (9)	55.8(102)	3.3 (1.6)
Size of Industry Employment	40.4 (74)	19.7 (36)	39.9 (73)	3.1 (1.3)
Entry of New Firms	77.6(142)	9.3 (17)	13.1 (24)	1.9 (1.1)
Number of Large Firms	65.0(119)	11.5 (21)	23.5 (43)	2.4 (1.3)

Table 2. Expected Industry Situation for the Next 5 Years

Industry Dimensions	Low or Small	Average	High or Large	mean (SD)
Number of Firms	67.2(123)	13.1 (24)	19.7 (36)	2.2 (1.3)
Concentration of Sales	29.5 (54)	14.2 (26)	56.3(103)	3.4 (1.3)
Growth of Employment	59.6(109)	21.3 (39)	19.1 (35)	2.4 (1.1)
Intensity of Competition	2.2 (4)	6.0 (11)	91.8(168)	4.5 (.7)
Competition from imports	29.0 (53)	9.3 (17)	61.7(113)	3.6 (1.5)
Size of Industry Employment	60.1(110)	22.4 (41)	17.5 (32)	2.3 (1.2)
Entry of New firms	84.7(155)	9.8 (18)	5.5(10)	1.7 (.9)
Number of Large firms	49.2 (90)	24.6 (45)	26.2 (48)	2.7 (1.2)

Table 3. Direction of Industry Changes

Dimensions of Industry	Direction of Change			
	Decline	No-change	Increase	Range
Number of Firms	56.3(103)	35.0 (64)	8.7 (16)	-4 - 4
Concentration of Sales	20.8 (38)	45.9 (84)	33.3 (61)	-4 - 4
Growth of Employment	25.7 (47)	45.4 (83)	28.9 (53)	-4 - 3
Intensity of Competition	19.7 (36)	71.6(131)	8.3 (16)	-4 - 4
Competition from imports	13.7 (25)	56.3(103)	30.0 (55)	-4 - 4
Size of Industry Employment	48.6 (89)	39.3 (72)	12.1 (22)	-4 - 4
Entry of New Firms	25.7 (47)	60.1(110)	14.2 (26)	-3 - 2
Number of Large firms	16.9 (31)	46.4 (85)	36.7 (67)	-4 - 4

Table 4. Market Situation during the Past 5 Years

Dimensions of Market	low or small	medium or average	high or large	mean (SD)
Market Size (sales volume)	53.6 (98)	19.7 (36)	26.8 (49)	2.6 (1.3)
Growth of Sales Volume	57.9(106)	8.2 (15)	33.9 (62)	2.7 (1.4)
Entry of New Buyers	63.4(116)	12.0 (22)	24.6 (45)	2.3 (1.3)
Market Fragmentation	28.4 (52)	16.4 (30)	55.2(101)	3.4 (1.3)
Heterogeneity of Markets	53.0 (97)	18.0 (33)	29.0 (53)	2.7 (1.2)

Table 5. Expected Market Situation for the Next 5 Years

Dimension of Market	low or small	medium or average	high or large	mean (SD)
Market Size (sales volume)	46.4 (85)	29.0 (53)	24.6 (45)	2.6 (1.2)
Growth of Sales Volume	66.1(121)	14.8 (27)	19.1 (35)	2.4 (1.1)
Entry of New Buyers	51.4 (94)	22.4 (41)	27.2 (48)	2.6 (1.2)
Market Fragmentation	26.8 (49)	15.3 (28)	58.9(106)	3.4 (1.2)
Heterogeneity of Markets	56.3(103)	18.6 (34)	25.1 (46)	2.6 (1.1)

Table 6. Direction of Market Changes

Dimensions of Market	Direction of Change			
	Decline	No-change	Increase	Range
Market Size (sales volume)	25.7(47)	43.7(80)	30.6(56)	-4 - 4
Growth of Sales Volume	32.2(59)	45.9(84)	21.9(40)	-4 - 4
Entry of New buyers	20.8(38)	35.0(64)	44.2(81)	-4 - 3
Market Fragmentation	22.4(41)	57.9(106)	19.7(36)	-3 - 4
Heterogeneity of Market	24.6(45)	55.2(101)	20.2(37)	-4 - 3

Table 7. Marketing Strategies during the past 5 years

Strategic elements	not emphasized	somewhat	very much emphasized	mean(SD)
Increasing Market Share	7.7(14)	30.1(55)	62.2(114)	3.8(.9)
Improving Profitability	1.6(3)	13.7(22)	86.7(158)	4.2(.7)
Improving Cash Flow	8.2(13)	21.9(40)	69,9(128)	3.9(.9)
Serving Broad Geographic Market	30.6(56)	29.0(53)	40.4(74)	3.2(1.2)
Focusing on a Few Buyer Segments	37.2(68)	35.5(65)	27.3(50)	2.8(1.1)
Broadness of Product Line	33.3(61)	33.3(61)	33.4(61)	3.1(1.2)
Specialty Products	22.2(37)	26.8(49)	53.0(97)	3.4(1.2)
New Product Development	29.0(53)	31.7(58)	39.3(72)	3.2(1.2)
Variety of Features	31.1(57)	32.2(59)	36.6(67)	3.0(1.1)
Product Quality	20.2(37)	34.4(63)	45.4(83)	3.4(1.1)
Brand Identification	37.2(68)	20.2(37)	42.6(78)	3.1(1.4)
Quick Delivery and Response	3.8(7)	9.3(17)	86.9(159)	4.4(.8)
Excellent Customer Service	1.1(2)	7.1(13)	91.8(168)	4.6(.7)
Lower Price than Competitors	36.1(66)	39.3(72)	24.6(45)	2.9(1.0)
The Lowest Cost Among Competitors	38.3(70)	24.6(45)	37.1(68)	3.0(1.3)
Meet All Price Changes	50.8(93)	28.4(52)	20.8(38)	2.6(1.1)

Table 8. Expected Marketing Strategies for the next 5 years

Strategic Elements	Will not Emphasize	Somewhat	Very much Emphasize	Mean(SD)
Increasing Market Share	4.9(9)	23.5(43)	71.6(131)	4.0(.9)
Improving Profitability	0.5(1)	8.7(15)	91.3(167)	4.4(.6)
Improving Cash Flow	3.8(7)	24.6(45)	71.6(131)	4.0(.8)
Serving Broad Geographic Market	24.0(44)	26.2(48)	49.8(91)	3.4(1.1)
Focusing on a few buyer segments	33.9(62)	26.8(49)	39.3(72)	3.1(1.1)
Broadness of product line	25.1(46)	38.3(70)	36.6(67)	3.2(1.1)
Specialty product	24.0(44)	20.2(37)	55.8(102)	3.5(1.3)
New product development	19.1(35)	30.1(55)	50.8(93)	3.5(1.2)
Variety of features	27.9(51)	29.0(53)	43.1(79)	3.2(1.1)
Product quality	15.3(28)	35.5(65)	49.2(91)	3.6(1.1)
Brand identification	28.4(52)	19.7(36)	51.9(95)	3.4(1.3)
Quick delivery and response	1.6(3)	4.9(9)	93.5(171)	4.5(.7)
Excellent customer service	0.0(0)	2.7(5)	97.3(178)	4.7(.5)
Lower price than competitors	33.3(61)	43.2(79)	23.5(43)	2.9(1.0)
The lowest cost among competitors	36.1(66)	24.0(44)	39.5(73)	3.2(1.2)
Meet all price changes	52.5(96)	27.9(51)	19.6(36)	2.6(1.1)

Table 9. Changes of marketing strategies

Strategic Elements	Direction of Changes: Less Emphasize	Same	More Emphasize	Range
Increasing Market Share	13.1(24)	57.4(105)	29.5(54)	-2 - 4
Improving Profitability	10.9(20)	66.7(122)	22.4(41)	-2 - 3
Improving Cash Flow	15.3(28)	62.8(115)	21.9(40)	-2 - 3
Serving Broad Geographic Market	12.0(22)	55.7(99)	32.3(59)	-2 - 3
Focusing on a Few Buyer Segments	16.4(30)	49.7(91)	33.9(62)	-3 - 4
Broadness of Product Line	18.6(34)	49.7(91)	31.7(57)	-3 - 3
Specialty Product	19.7(36)	57.4(105)	22.9(42)	-4 - 3
New Product Development	14.2(26)	47.5(87)	38.2(70)	-4 - 2
Variety of Features	14.2(26)	55.2(101)	30.6(55)	-3 - 3
Product Quality	13.1(24)	56.8(104)	30.1(55)	-3 - 2
Brand Identification	10.4(19)	60.7(111)	28.9(53)	-2 - 3
Quick Delivery and Response	4.0(9)	79.2(145)	15.8(29)	-1 - 2
Excellent Customer Service	2.7(5)	86.3(158)	10.9(20)	-1 - 2
Lower Price than Competitors	21.3(39)	55.2(101)	23.9(43)	-2 - 2
The Lowest Cost Among Competitor	17.5(32)	60.1(110)	23.3(41)	-3 - 4
Meet All Price Changes	20.8(37)	63.3(116)	15.9(29)	-3 - 2

Table 10. Varimax Rotated Factor Pattern of Industry Variables

	FACTOR 1	FACTOR 2	FACTOR 3
INSIZ1	0.855	0.010	-0.217
ICR	-0.420	0.160	0.480
INGROW	0.051	0.800	0.040
INCOMP	0.308	-0.550	-0.006
IMPORT	0.013	-0.561	0.008
INSIZ2	0.772	-0.020	0.326
BARRIER	0.432	0.569	-0.192
AFSIZ	0.095	-0.112	0.847

Table 11. Varimax Rotated Factor Pattern of Market Variables

	FACTOR 1	FACTOR 2
MASIZ	0.780	-0.014
MAGROW	0.556	-0.037
NWBYER	0.712	0.053
MAFRAG	-0.249	0.849
MAHET	-0.407	-0.559

Table 12. Varimax Rotated Factor Pattern of Company Variables

	FACTOR 1	FACTOR 2
COSIZ	-0.135	0.824
COSALE	0.254	0.686
COMS	0.332	0.733
EMPGRO	0.766	-0.064
SALGRO	0.842	0.214
MSGRO	0.683	0.395

Table 13. Varimax Rotated Factor Pattern of Marketing Strategies

	FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4	FACTOR 5
GEOMA	0.796	0.064	-0.026	0.086	-0.164
FOCUS	-0.237	0.134	-0.160	0.685	0.257
BRODLIN	0.725	-0.027	0.122	-0.047	0.172
SPECPRO	0.041	-0.047	0.068	0.040	0.863
NEWPRO	0.583	-0.110	0.048	0.124	0.504
VAFETUR	0.457	-0.141	-0.008	0.475	0.309
PROQUL	0.110	-0.176	0.278	0.674	-0.102
BRIDEN	0.421	-0.061	0.138	0.567	-0.049
QKSERV	0.066	0.195	0.863	0.009	0.104
XLSERV	0.048	-0.077	0.888	0.134	-0.004
PRICE1	-0.045	-0.745	0.020	-0.269	0.003
COST1	-0.053	0.719	0.051	0.092	-0.013
PRICE2	0.039	0.858	0.014	-0.013	-0.097

Table 14. Correlation among industry variables

	insiz1	icr	ingrow	incomp	import	insiz2	entry	afsiz
insiz1	1.00	-.36***	.02	.16*	-.01	.50***	-.30***	.09
icr	-.36***	1.00	.02	-.05	-.06	-.07	-.04	.05
ingrow	.02	.02	1.00	-.29***	-.22**	-.03	.36***	-.01
incomp	.16*	-.05	-.29***	1.00	.14*	.12	-.01	.05
import	-.01	-.06	-.22**	.14	1.00	.00	-.14	.08
insiz2	.50***	-.07	-.03	.12	.00	1.00	.14	.14
entry	.30***	-.04	.36***	-.01	-.14	.14	1.00	-.14
afsiz	-.09	.05	-.01	.04	.07	.13	.14	1.00

* ...significant at .05 level **...significant at .01 level
***...significant at .001 level

Table 15. Correlation among market variables

	masiz	magrow	nwbyer	mafrag	mahet
masiz	1.00	** .19	*** .42	-.10	* -.16
magrow	** .19	1.00	* .16	-.10	* -.16
nwbyer	*** .42	* .16	1.00	-.02	-.09
mafrag	-.10	-.10	-.02	1.00	-.08
mahet	* -.16	* -.16	-.09	-.08	1.00

Table 16. Correlation between industry and market variables

	masiz	magrow	nwbyer	mafrag	mahet
insiz1	*** .25	* -.15	.13	.12	.06
icr	.01	** .20	.13	** -.22	-.09
ingrow	*** .26	.05	*** .32	.00	** -.21
incomp	-.03	-.08	-.14	.02	-.10
import	-.12	-.10	-.01	.02	** .22
insiz2	*** .37	-.01	** .19	-.07	-.03
entry	*** .23	.04	*** .43	.13	-.08
afsiz	.09	* .18	-.02	*** -.28	-.08

Table 16. Correlation among Company Variables

	cosiz	cosale	coms	empgro	salgro	msgro	coroi	perform
		***	***			**		
cosiz	1.00	.37	.38	.00	.10	.21	.03	.09
	***		***	**	***	***	***	***
cosale	.37	1.00	.44	.23	.32	.25	.27	.29
	***	***		*	***	***	***	***
coms	.38	.44	1.00	.15	.36	.50	.27	.28
		**	*		***	***	**	***
empgro	.00	.23	.15	1.00	.45	.28	.22	.26
		***	***	***		***	***	***
salgro	.10	.32	.36	.45	1.00	.60	.38	.47
	**	***	***	***	***		***	***
msgro	.21	.25	.50	.28	.60	1.00	.34	.42
		***	***	**	***	***		***
coroi	.03	.27	.27	.22	.38	.34	1.00	.43
		***	***	***	***	***	***	
perform	.09	.29	.28	.26	.47	.42	.43	1.00

Table 17. Correlation Between Industry and Market and Company Variables

	cosiz	cosale	coms
insiz1	.02	-.11	-.19**
icr	.00	.00	.09
ingrow	.06	.19	.17
incomp	.02	-.04	-.04
import	-.09	-.12	-.05
insiz2	.09	-.07	-.12
entry	.12	.00	.08
afsiz	-.10	.04	-.02
masiz	.11	.05	.07
magrow	.00	.05	.08
nwbyer	.14	.13	.23**
mafrag	-.04	.02	-.07
mahet	-.06	-.09	-.03

Table 18. Correlations among Marketing Strategies

	inms	prof	imcash	geoma	focus	brodlin
inms	1.00	.23**	.08	.22**	-.05	.30***
prof	.23**	1.00	.37***	.16*	.00	.27***
imcash	.08	.37***	1.00	.15*	.16*	.14
geoma	.22**	.16*	.15*	1.00	-.05	.40***
focus	-.05	.00	.17*	-.05	1.00	.00
brodlin	.30***	.27***	.14	.40***	.00	1.00
specpro	.13	.01	-.10	.02	.10	.12
newpro	.22**	.13	.06	.27***	.00	.38***
vafetur	.14	.02	.06	.26***	.21**	.26***
proqul	.17*	.17*	.03	.14	.17*	.10
briden	.15*	.01	.00	.26***	.10	.20**
qkserv	.21**	.24***	.15*	.07	.00	.16*
xlserv	.26***	.12	.06	.03	-.02	.11
price1	-.02	.02	.10	-.06	-.04	-.03
cost1	.06	.13*	.08	-.03	.00	-.04
price2	.00	.04	.10	.08	.02	-.06

Table 18 (continued)

	specpro	newpro	vafetur	proqul	briden	qkserv
		**		*	*	**
inms	.13	.22	.14	.17	.15	.21
				*		***
prof	.01	.13	.02	.17	.01	.24
						*
imcash	-.10	.06	.06	.03	.00	.15
		***	***		***	
geoma	.02	.27	.26	.14	.26	.07
			**	*		
focus	.10	.00	.21	.17	.18	.00
		***	***		**	*
brodlin	.12	.38	.26	.10	.20	.16
		***	**			
specpro	1.00	.30	.18	.07	.11	.10
	***		***	*	**	
newpro	.30	1.00	.43	.18	.25	.06
	*	***		**	***	
vafetur	.18	.43	1.00	.23	.36	.05
		*	**		***	
proqul	.07	.18	.23	1.00	.32	.13
		**	***	***		
briden	.11	.25	.36	.32	1.00	.12
qkserv	.10	.06	.05	.13	.12	1.00
				***	*	***
xlserv	.03	.12	.13	.27	.18	.61
			*	**	**	
price1	-.08	-.14	-.17	-.23	-.19	-.13
cost1	-.04	-.01	-.11	.01	-.05	.12
				*		
price2	-.06	-.12	-.13	-.16	.00	.14

Table 18 (continued)

	xlserv	price1	cost1	price2
inms	.26***	-.02	.06	.00
prof	.12	.02	.13	.04
imcash	.06	.10	.08	.10
geoma	.03	-.04	-.04	.08
focus	-.02	-.04	.00	.02
brodlin	.11	-.03	-.04	-.06
specpro	.03	-.08	-.04	-.06
newpro	.12	-.14	-.01	-.12
vafetur	.13	-.17*	-.11	-.13
proqul	.27***	-.23**	.01	-.16*
briden	.18*	-.19**	-.05	.00
qkserv	.61***	.13	.12	.14
xlserv	1.00	-.06	-.01	-.02
price1	-.06	1.00	.30***	.51***
cost1	-.01	.30***	1.00	.45***
price2	-.02	.51***	.45***	1.00

Table 19. Correlation between Company factors and marketing strategies.

	cosiz	cosale	coms	perform
inms	.07	.01	* .17	.04
prof	-.05	-.02	-.10	-.05
imcash	-.07	-.03	-.05	.09
geoma	.10	.08	.07	.10
focus	* -.15	-.11	-.10	-.10
brodlin	.09	.11	.10	.13
specpro	.00	.00	-.04	.00
newpro	.01	.04	.07	.12
vafetur	.02	.03	.13	* .17
proqul	.04	.00	.06	.05
briden	-.01	.08	.11	.09
qkserv	.05	.08	.07	.13
xlserv	-.03	.06	-.01	.13
price1	.03	.02	.00	-.06
cost1	-.03	.10	.06	.06
price2	-.08	.12	.00	.04

Table 20. Correlation among industry changes

	cinsiz1	cicr	cingro	cincom	cimpor	cinsi2	centry	cafsi
cinsiz1	1.00	-.30***	-.05	.05	.12	.38***	.16*	-.03
cicr	-.31***	1.00	-.06	.12	.01	-.22**	-.14*	.04
cingrow	-.05	-.05	1.00	-.13	-.02	-.07	.03	-.06
cincomp	.05	.12	-.13	1.00	.03	.06	.09	.14
cimport	.12	.01	-.03	.03	1.00	.04	-.08	.08
cinsiz2	.38***	-.22**	-.07	.06	.04	1.00	.11	.05
centry	.16*	-.14	.03	.09	-.08	.11	1.00	-.03
cafsiz	-.03	.04	-.06	.14	.08	.05	-.03	1.00

* ...significant at .05 level **...significant at .01 level
***...significant at .001 level

Table 21. Correlation among market changes

	cmasiz	cmagrow	cnwbyer	cmafrag	cmahet
cmasiz	1.00	.25**	.23**	-.12	-.01
cmagrow	.25**	1.00	.02	.01	-.12
cnwbyer	.23**	.02	1.00	.01	.00
cmafrag	-.12	.01	.01	1.00	.00
cmahet	-.01	-.12	.00	.00	1.00

VITA

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Candidate for the Degree of

Doctor of Philosophy

Thesis: AN INVESTIGATION OF THE RELATIONSHIPS BETWEEN CONTINGENCY FACTORS AND THE DEVELOPMENT AND ADAPTATION OF BUSINESS LEVEL MARKETING STRATEGIES

Major Field: Business Administration

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